

Spin Master Corp.

Management's Discussion and Analysis of Financial Results

For the three and six months ended June 30, 2023

TABLE OF CONTENTS

INTRODUCTION	1
BASIS OF PRESENTATION	1
BUSINESS OVERVIEW	1
FINANCIAL PERFORMANCE	8
CONSOLIDATED RESULTS	8
SEGMENTED RESULTS	17
INVESTMENTS AND ACQUISITIONS	29
SELECTED QUARTERLY FINANCIAL INFORMATION	31
LIQUIDITY AND CAPITAL RESOURCES	32
CASH FLOW	33
OUTLOOK	37
CONTRACTUAL OBLIGATIONS & COMMITMENTS	37
OFF-BALANCE SHEET ARRANGEMENTS	37
CAPITALIZATION	38
RELATED PARTY TRANSACTIONS	39
CRITICAL ACCOUNTING ESTIMATES	39
INTERNAL CONTROL OVER FINANCIAL REPORTING	39
LIMITATIONS OF AN INTERNAL CONTROL SYSTEM	39
NON-GAAP FINANCIAL MEASURES AND RATIOS	40
FORWARD-LOOKING STATEMENTS	49

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. and its subsidiaries ("Spin Master" or the "Company") provides information concerning the Company's financial condition, financial performance and cash flows for the three and six months ended June 30, 2023 ("second quarter", "the quarter", "Q2"). This MD&A should be read in conjunction with the Company's unaudited Condensed consolidated interim financial statements for the three and six months ended June 30, 2023 ("interim financial statements"), its audited annual Consolidated financial statements and accompanying notes ("annual financial statements") and its annual MD&A for the year ended December 31, 2022 ("Annual MD&A"). Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2022, can be found under the Company's profile on the System of Electronic Document Analysis and Retrieval (SEDAR+) at www.sedarplus.ca.

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"). However, certain financial measures and ratios contained in this MD&A do not have any standardized meaning under IFRS ("Non-GAAP") and are discussed further in the "Non-GAAP Financial Measures and Ratios" section of this MD&A. Management believes the Non-GAAP financial measures and Non-GAAP financial ratios defined in the section noted above are important supplemental measures of operating performance and highlight trends in the business. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is consistent and comparable between reporting periods. The Company believes that investors, lenders, securities analysts and other interested parties frequently use these Non-GAAP financial measures and Non-GAAP financial ratios in the evaluation of issuers.

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

BUSINESS OVERVIEW

Spin Master Corp. is a leading global children's entertainment company, creating exceptional play experiences through its three creative centres: Toys, Entertainment and Digital Games. With distribution in over 100 countries, Spin Master is best known for award-winning brands PAW Patrol®, Bakugan®, Kinetic Sand®, Air Hogs®, Hatchimals®, Rubik's Cube® and GUND®, and is the global toy licensee for other popular properties. Spin Master Entertainment creates and produces compelling multiplatform content, through its in-house studio and partnerships with outside creators, including the preschool franchise *PAW Patrol* and numerous other original shows, short-form series and feature films. The Company has an established presence in Digital Games, anchored by the Toca Boca® and Sago Mini® brands, offering open-ended and creative game and educational play in digital environments. Through Spin Master Ventures, the Company makes minority investments globally in emerging companies and start-ups. With over 30 offices in close to 20 countries, Spin Master employs more than 2,300 team members globally.

Segment information

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

Toys

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

Entertainment

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

Digital Games

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

Corporate & Other

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

Strategy

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

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

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

Selected Financial Information

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

Consolidated Results		Six Months Ended Jun 30		
(US\$ millions, except per share information)	Q2 2023	Q2 2022	2023	2022
Revenue	420.7	506.3	692.1	930.5
Operating Income	34.4	118.2	28.3	179.9
Operating Margin ¹	8.2 %	23.3 %	4.1 %	19.3 %
Adjusted Operating Income ²	62.6	97.6	75.3	174.9
Adjusted Operating Margin ²	14.9 %	19.3 %	10.9 %	18.8 %
Net Income	28.0	88.1	26.1	133.7
Adjusted Net Income ²	48.8	72.4	61.1	129.9
Adjusted EBITDA ²	88.4	113.7	119.0	209.4
Adjusted EBITDA Margin ²	21.0 %	22.5 %	17.2 %	22.5 %
Earnings Per Share ("EPS")				
Basic EPS	0.27	0.86	0.25	1.30
Diluted EPS	0.26	0.83	0.25	1.26
Adjusted Basic EPS ²	0.47	0.70	0.59	1.26
Adjusted Diluted EPS ²	0.45	0.68	0.58	1.22
Cash dividends declared per share (CA\$)	0.06	—	0.12	—
Weighted average number of shares (in millions)				
Basic	103.6	102.9	103.7	102.9
Diluted	107.3	106.3	105.6	106.3
Selected Cash Flow Data				
Cash provided by operating activities	19.1	111.6	14.8	48.7
Cash used in investing activities	(30.3)	(30.4)	(86.9)	(38.7)
Free Cash Flow ²	(5.9)	84.1	(40.3)	4.7
Selected Balance Sheet Data			Jun 30,	Dec 31,
			2023	2022
Cash and cash equivalents			554.9	644.3
Total assets ³			1,808.1	1,805.1
Total liabilities ³			519.7	553.3

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

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

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

Executive Summary for Q2 2023 as compared to Q2 2022

- Revenue was \$420.7 million, a decrease of 16.9% from \$506.3 million. Constant Currency Revenue¹ was \$419.9 million, a decrease of 17.1%, from \$506.3 million.
- Revenue by operating segment reflected a decline of 20.9% in Toys, offset by a 19.4% increase in Entertainment and 0.5% increase in Digital Games.
- Operating Income was \$34.4 million compared to \$118.2 million.
- Operating Margin was 8.2% compared to 23.3%.
- Adjusted Operating Income¹ was \$62.6 million compared to \$97.6 million.
- Adjusted Operating Margin¹ was 14.9% compared to 19.3%.
- Net Income was \$28.0 million or \$0.26 per share (diluted) compared to \$88.1 million or \$0.83 per share (diluted).
- Adjusted Net Income¹ was \$48.8 million or \$0.45 per share (diluted) compared to \$72.4 million or \$0.68 per share (diluted).
- Adjusted EBITDA¹ was \$88.4 million compared to \$113.7 million.
- Adjusted EBITDA Margin¹ was 21.0% compared to 22.5%.
- Cash provided by operating activities was \$19.1 million compared to \$111.6 million.
- Free Cash Flow¹ was \$(5.9) million compared to \$84.1 million.
- The Company acquired assets from a games and puzzles company for purchase considerations of \$3.3 million and, through Spin Master Ventures, increased its minority interest in a privately-held entity for \$2.0 million.
- The Company repurchased and cancelled 156,200 subordinate voting shares through the Company's normal course issuer bid ("NCIB") program for \$4.2 million.
- The Company incurred restructuring expenses of \$9.7 million (\$0.07 per diluted share) related to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France as previously announced.
- Subsequent to June 30, 2023, the Company declared a quarterly dividend of CA\$0.06 per outstanding subordinate voting share and multiple voting share, payable October 13, 2023.
- Subsequent to June 30, 2023, the Company implemented a Dividend Reinvestment Plan (the "DRIP").
- The Company reiterates 2023 Outlook.

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

Executive Summary for the six months ended June 30, 2023 as compared to June 30, 2022

- Revenue was \$692.1 million, down 25.6% from \$930.5 million. Constant Currency Revenue¹ decreased by 25.3% to \$695.5 million from \$930.5 million.
- Revenue by operating segment reflected declines of 32.5% in Toys and 3.7% in Digital Games, partially offset by a 41.3% increase in Entertainment.
- Operating Income was \$28.3 million compared to \$179.9 million. The decrease in Operating income was primarily driven by the decrease in Toy revenue.
- Operating Margin was 4.1% compared to 19.3%.
- Adjusted Operating Income¹ was \$75.3 million compared to \$174.9 million.
- Adjusted Operating Margin¹ was 10.9% compared to 18.8%.
- Net Income was \$26.1 million or \$0.25 per share (diluted) compared to \$133.7 million or \$1.26 per share (diluted).
- Adjusted Net Income¹ was \$61.1 million or \$0.58 per share (diluted) compared to \$129.9 million or \$1.22 per share (diluted).
- Adjusted EBITDA¹ was \$119.0 million compared to \$209.4 million, a decrease of \$90.4 million or 43.2%.
- Adjusted EBITDA Margin¹ was 17.2% compared to 22.5%.
- Cash provided by operating activities was \$14.8 million compared to \$48.7 million.
- Free Cash Flow¹ was \$(40.3) million compared to \$4.7 million.
- During Q2 2023, the Company acquired assets from a games and puzzles company for purchase considerations of \$3.3 million. During Q1 2023, the Company acquired certain assets of 4D Brands International Inc. for total purchase considerations of \$18.9 million and acquired the *HEXBUG* brand of toys from Innovation First International, Inc., for total purchase considerations of \$14.6 million.
- During the six months ended June 30, 2023, the Company incurred restructuring expenses of \$13.5 million (\$0.10 per diluted share) related to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France.
- During the six months ended June 30, 2023, the Company repurchased and cancelled 397,700 subordinate voting shares through the Company's NCIB program for \$10.5 million.

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

Segmented Results		Six Months Ended Jun 30			
(US\$ millions)	Q2 2023	Q2 2022	2023	2022	
Toys					
Toy Gross Product Sales ²	390.0	484.4	606.3	881.9	
Toy revenue	346.3	437.6	532.6	788.5	
Operating Income (Loss)	23.8	62.6	(18.0)	104.0	
Operating Margin ¹	6.9 %	14.3 %	(3.4)%	13.2 %	
Adjusted EBITDA ²	47.7	83.2	26.3	142.1	
Adjusted EBITDA Margin ²	13.8 %	19.0 %	4.9 %	18.0 %	
Cash Flow					
Toys capital expenditures	12.3	9.8	20.1	17.0	
			Jun 30	Dec 31	
Balance Sheet			2023	2022	
Moulds, dies and tools, net carrying amount			21.7	19.2	
Six Months Ended Jun 30					
	Q2 2023	Q2 2022	2023	2022	
Entertainment					
Entertainment revenue	33.9	28.4	71.5	50.6	
Operating Income	15.7	17.5	45.0	28.7	
Operating Margin ¹	46.3 %	61.6 %	62.9 %	56.7 %	
Adjusted Operating Income ²	16.3	18.0	46.2	29.4	
Adjusted Operating Margin ²	48.1 %	63.4 %	64.6 %	58.1 %	
Cash Flow					
Entertainment capital expenditures	10.9	14.9	29.3	21.7	
			Jun 30	Dec 31	
Balance Sheet			2023	2022	
Entertainment content development, net carrying amount ³			90.8	77.1	
Six Months Ended Jun 30					
	Q2 2023	Q2 2022	2023	2022	
Digital Games					
Digital Games revenue	40.5	40.3	88.0	91.4	
Operating Income	9.6	8.4	25.8	28.2	
Operating Margin ¹	23.7 %	20.8 %	29.3 %	30.9 %	
Adjusted Operating Income ²	12.8	10.0	31.8	31.6	
Adjusted Operating Margin ²	31.6 %	24.8 %	36.1 %	34.6 %	
Cash Flow					
Digital Games capital expenditures	5.1	2.8	9.0	5.3	
			Jun 30	Dec 31	
Balance Sheet			2023	2022	
Digital Games development, net carrying amount			22.0	17.1	

¹ Operating Margin is calculated as segment Operating Income (Loss) divided by segment Revenue.

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

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

FINANCIAL PERFORMANCE

Consolidated Results

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

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Revenue	420.7	506.3	(85.6)	(16.9)%
Cost of sales	189.7	222.6	(32.9)	(14.8)%
Gross Profit	231.0	283.7	(52.7)	(18.6)%
Selling, general and administrative expenses	179.5	190.4	(10.9)	(5.7)%
Depreciation and amortization	5.7	6.8	(1.1)	(16.2)%
Other expense, net	—	0.6	(0.6)	(100.0)%
Foreign exchange loss (gain)	11.4	(32.3)	43.7	(135.3)%
Operating Income	34.4	118.2	(83.8)	(70.9)%
Interest income	(6.5)	(1.3)	(5.2)	n.m.
Interest expense	3.3	3.6	(0.3)	(8.3)%
Income before income tax expense	37.6	115.9	(78.3)	(67.6)%
Income tax expense	9.6	27.8	(18.2)	(65.5)%
Net Income	28.0	88.1	(60.1)	(68.2)%

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

(US\$ millions)	Six Months Ended Jun 30			
	2023	2022	\$ Change	% Change
Revenue	692.1	930.5	(238.4)	(25.6)%
Cost of sales	302.6	409.5	(106.9)	(26.1)%
Gross Profit	389.5	521.0	(131.5)	(25.2)%
Selling, general and administrative expenses	328.8	349.0	(20.2)	(5.8)%
Depreciation and amortization	12.3	14.7	(2.4)	(16.3)%
Other expense, net	4.4	0.1	4.3	n.m.
Foreign exchange loss (gain)	15.7	(22.7)	38.4	(169.2)%
Operating Income	28.3	179.9	(151.6)	(84.3)%
Interest income	(13.2)	(1.7)	(11.5)	n.m.
Interest expense	6.4	5.9	0.5	8.5 %
Income before income tax expense	35.1	175.7	(140.6)	(80.0)%
Income tax expense	9.0	42.0	(33.0)	(78.6)%
Net Income	26.1	133.7	(107.6)	(80.5)%

Revenue as compared to the same period in 2022:

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

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change	Change in % of Revenue
Toy revenue	346.3	437.6	(91.3)	(20.9)%	(18.0)%
Entertainment revenue	33.9	28.4	5.5	19.4 %	1.1 %
Digital Games revenue	40.5	40.3	0.2	0.5 %	— %
Revenue	420.7	506.3	(85.6)		(16.9)%

Revenue was \$420.7 million, a decrease of 16.9% from \$506.3 million due to a 18.0% decline in Toy revenue, partially offset by a 1.1% growth in Entertainment revenue. Constant Currency Revenue¹ was \$419.9 million, a decrease of 17.1%, from \$506.3 million.

Toy revenue declined by \$91.3 million or 20.9% to \$346.3 million driven by a decrease in Toy Gross Product Sales¹. Toy Gross Product Sales¹ decreased \$94.4 million or 19.5%, to \$390.0 million from \$484.4 million. Constant Currency Toy Gross Product Sales¹ decreased by \$96.7 million or 20.0% to \$387.7 million.

Entertainment revenue increased by \$5.5 million or 19.4% to \$33.9 million from higher distribution revenue due to new content deliveries of *Vida the Vet*, *Rubble & Crew* and *Unicorn Academy*. Also contributing to the increase was the Company's share of revenue related to the continued distribution of *PAW Patrol: The Movie*. Licensing and merchandising revenue declined for the period. Constant Currency Entertainment Revenue¹ increased by \$5.6 million or 19.7% to \$34.0 million, from \$28.4 million.

Digital Games revenue increased by \$0.2 million or 0.5% to \$40.5 million driven by higher in-game purchases in the *Toca Life World* platform. Constant Currency Digital Games Revenue¹ increased by \$1.1 million or 2.7% to \$41.4 million, from \$40.3 million.

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

Six Months Ended Jun 30					
(US\$ millions)	2023	2022	\$ Change	% Change	Change in % of Revenue
Toy revenue	532.6	788.5	(255.9)	(32.5)%	(27.5)%
Entertainment revenue	71.5	50.6	20.9	41.3 %	2.2 %
Digital Games revenue	88.0	91.4	(3.4)	(3.7)%	(0.4)%
Revenue	692.1	930.5	(238.4)		(25.6)%

Revenue was \$692.1 million, a decrease of 25.6% from \$930.5 million due to a 27.5% decrease in Toy revenue and 0.4% decrease in Digital Games revenue, partially offset by 2.2% growth in Entertainment revenue. Constant Currency Revenue¹ was \$695.5 million, a decrease of 25.3% from \$930.5 million.

Toy revenue decreased by \$255.9 million or 32.5% to \$532.6 million driven by a decrease in Toy Gross Product Sales¹. Toy Gross Product Sales¹ decreased by \$275.6 million or 31.3%, to \$606.3 million from \$881.9 million. Constant Currency Toy Gross Product Sales¹ decreased by \$274.5 million or 31.1% to \$607.4 million, down from \$881.9 million.

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

Entertainment revenue increased by \$20.9 million or 41.3% to \$71.5 million. The increase was due to the Company's share of revenue from the continued distribution of *PAW Patrol: The Movie* and the *PAW Patrol* series, as well as higher distribution revenue from new content deliveries of *Vida the Vet*, *Rubble & Crew* and *Unicorn Academy*. Constant Currency Entertainment Revenue¹ increased by \$5.6 million or 19.7% to \$34.0 million, up from \$28.4 million.

Digital Games revenue decreased by \$3.4 million or 3.7% to \$88.0 million. The decrease was due to lower in-game purchases in the *Toca Life World* platform. Constant Currency Digital Games Revenue¹ decreased by \$0.9 million or 1.0% to \$90.5 million, down from \$91.4 million.

Gross Profit as compared to the same period in 2022:

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Revenue	420.7	506.3	(85.6)	(16.9)%
Gross Profit	231.0	283.7	(52.7)	(18.6)%
Gross Margin	54.9 %	56.0 %		(1.1)%

For the three months ended June 30, 2023, Gross Profit decreased by \$52.7 million or 18.6% to \$231.0 million, primarily driven by a 20.9% decline in Toy Revenue.

Gross Margin decreased to 54.9% from 56.0% as compared to the same period in 2022. The decline was a result of lower licensing and merchandising revenue, higher amortization related to more Entertainment content deliveries, higher Sales Allowances as a percentage of Toy Gross Product Sales¹ due to geographic and customer mix as well as unfavourable product mix, partially offset by favourable ocean freight rates compared to the prior year.

Six Months Ended Jun 30				
(US\$ millions)	2023	2022	\$ Change	% Change
Revenue	692.1	930.5	(238.4)	(25.6)%
Gross Profit	389.5	521.0	(131.5)	(25.2)%
Gross Margin	56.3 %	56.0 %		0.3 %

For the six months ended June 30, 2023, Gross Profit decreased by \$131.5 million or 25.2% to \$389.5 million, primarily driven by a 32.5% decline in Toy Revenue.

Gross Margin increased to 56.3% from 56.0%, as a result of the Company's share of revenue from the continued distribution of both *PAW Patrol: The Movie* and the *PAW Patrol* series as well as higher licensing and merchandising revenue.

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

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Administrative	99.7	99.0	0.7	0.7 %
Marketing	30.8	34.8	(4.0)	(11.5)%
Selling	28.3	35.3	(7.0)	(19.8)%
Distribution	12.9	14.4	(1.5)	(10.4)%
Product development	7.8	6.9	0.9	13.0 %
SG&A	179.5	190.4	(10.9)	(5.7)%

Administrative expenses increased by \$0.7 million or 0.7% to \$99.7 million. The increase was primarily due to an increase in restructuring expense as a result of the closure of the Company's manufacturing facility in Calais, France. The increase was offset by lower incentive compensation, personnel and consulting costs. Administrative expenses as a percentage of revenue increased to 23.7% from 19.6% primarily as a result of lower revenue.

Marketing expenses decreased by \$4.0 million or 11.5% to \$30.8 million, due to lower media and video production spend. Marketing expenses as a percentage of revenue increased to 7.3% from 6.9%.

Selling expenses decreased by \$7.0 million to \$28.3 million primarily due to a decrease in sale of partner licensed brands, as a result of an overall decline in Toy revenue in the second quarter. Selling expenses as a percentage of Toy revenue increased slightly to 8.2% from 8.1%, primarily due to a shift in product sales mix.

Distribution expenses decreased by \$1.5 million or 10.4% to \$12.9 million, primarily due to lower warehousing and outbound transportation costs from lower domestic sales volume. Distribution expenses as a percentage of Toy revenue increased to 3.7% from 3.3%, due to fixed warehousing costs.

Product development expenses increased by \$0.9 million or 13.0% to \$7.8 million, due to higher Toy development and design activities.

(US\$ millions)	Six Months Ended Jun 30			
	2023	2022	\$ Change	% Change
Administrative	188.0	178.7	9.3	5.2 %
Marketing	55.1	62.0	(6.9)	(11.1)%
Selling	44.7	64.9	(20.2)	(31.1)%
Distribution	26.9	30.5	(3.6)	(11.8)%
Product development	14.1	12.9	1.2	9.3 %
SG&A	328.8	349.0	(20.2)	(5.8)%

Administrative expenses increased by \$9.3 million or 5.2% to \$188.0 million. The increase was primarily due to higher restructuring, bad debt and IT costs, partially offset by lower incentive compensation and consulting expenses. Administrative expenses as a percentage of revenue increased to 27.2% from 19.2% as a result of lower revenue.

Marketing expenses decreased by \$6.9 million or 11.1% to \$55.1 million, due to lower media spend. Marketing expenses as a percentage of revenue increased to 8.0% from 6.7%.

Selling expenses decreased by \$20.2 million to \$44.7 million due to the decline in sales in the first half of the year. Selling expenses as a percentage of Toy revenue increased to 8.4% from 8.2% due to a shift in product mix.

Distribution expenses decreased by \$3.6 million or 11.8% to \$26.9 million, due to lower warehousing and outbound transportation costs driven by lower domestic sales volume. Distribution expenses as a percentage of Toy revenue increased to 5.1% from 3.9% due to fixed warehousing costs.

Product development expenses increased by \$1.2 million or 9.3% to \$14.1 million, due to higher development and design spend on Toy products.

Adjusted SG&A¹ as compared to the same period in 2022:

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
SG&A	179.5	190.4	(10.9)	(5.7)%
Adjustments¹:				
Restructuring and other related costs ²	(9.7)	(4.5)	(5.2)	115.6 %
Share based compensation ³	(4.8)	(4.5)	(0.3)	6.7 %
Transaction costs ⁴	(1.5)	(0.4)	(1.1)	275.0 %
Adjusted SG&A⁵	163.5	181.0	(17.5)	(9.7)%

¹ These adjustments relate to items recorded within Administrative expenses.

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

³ Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the Company's initial public offering, share option expense and long-term incentive plan, and the mark to market (loss) gain related to DSUs.

⁴ Professional fees incurred relating to acquisitions and other transactions.

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

Adjusted SG&A¹ decreased by \$17.5 million or 9.7% to \$163.5 million primarily as a result of lower selling, administrative, marketing and distribution costs. Adjusted SG&A¹ as a percentage of revenue increased to 38.9% from 35.7%, due to lower revenue in the second quarter, which is expected to normalize in the second half of 2023.

Six Months Ended Jun 30				
(US\$ millions)	2023	2022	\$ Change	% Change
SG&A	328.8	349.0	(20.2)	(5.8)%
Adjustments¹:				
Restructuring and other related costs ²	(13.5)	(5.1)	(8.4)	164.7 %
Share based compensation ³	(10.2)	(8.6)	(1.6)	18.6 %
Transaction costs ⁴	(2.1)	(0.5)	(1.6)	320.0 %
Bad debt (recovery) expense	—	—	—	n.m.
Adjusted SG&A⁵	303.0	334.8	(31.8)	(9.5)%

¹ These adjustments relate to items recorded within Administrative expenses.

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

³ Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the Company's initial public offering, share option expense and long-term incentive plan, and the mark to market (loss) gain related to DSUs.

⁴ Professional fees incurred relating to acquisitions and other transactions.

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

Adjusted SG&A¹ decreased by \$31.8 million or 9.5% to \$303.0 million primarily as a result of lower selling, marketing, distribution and administrative. Adjusted SG&A¹ as a percentage of revenue increased to 43.8% from 36.0%, due to lower revenue in the first half of the year, which is expected to normalize in the second half of 2023.

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

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

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	4.6	5.2	(0.6)	(11.5)%
Equipment, included in cost of sales	1.1	0.1	1.0	n.m.
Equipment	0.5	0.4	0.1	25.0 %
Building and leasehold improvements	1.1	1.3	(0.2)	(15.4)%
Computer hardware	0.2	0.2	—	— %
	7.5	7.2	0.3	4.2 %
Intangible assets				
Entertainment content development, included in cost of sales	13.3	2.9	10.4	358.6 %
Trademarks, licenses, IP & customer lists - definite	0.2	1.4	(1.2)	(85.7)%
Digital games and app development, included in cost of sales	1.1	1.1	—	— %
Computer software	0.7	0.4	0.3	75.0 %
	15.3	5.8	9.5	163.8 %
Right-of-use assets	3.0	3.1	(0.1)	(3.2)%
Depreciation and amortization	25.8	16.1	9.7	60.2 %

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Included in cost of sales	20.1	9.3	10.8	116.1 %
Included in expenses	5.7	6.8	(1.1)	(16.2)%
Depreciation and amortization	25.8	16.1	9.7	60.2 %

For the three months ended June 30, 2023, depreciation and amortization expense increased by \$9.7 million to \$25.8 million primarily due to an increase in amortization for intangibles assets.

Depreciation and amortization related to property, plant and equipment increased by \$0.3 million or 4.2% primarily due to higher depreciation for Equipment, partially offset by lower depreciation of buildings and leasehold improvements and moulds, dies and tools.

Depreciation and amortization related to intangible assets increased by \$9.5 million or 163.8%, as a result of higher amortization for entertainment content in the current quarter due to higher content deliveries in the current year.

(US\$ millions)	Six Months Ended Jun 30			
	2023	2022	\$ Change	% Change
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	9.8	10.4	(0.6)	(5.8)%
Equipment, included in cost of sales	1.2	0.1	1.1	n.m
Equipment	1.0	1.0	—	— %
Building and leasehold improvements	2.4	2.7	(0.3)	(11.1)%
Computer hardware	0.4	0.4	—	— %
	14.8	14.6	0.2	1.4 %
Intangible assets				
Entertainment content development, included in cost of sales ¹	18.0	7.2	10.8	150.0 %
Trademarks, licenses, IP & customer lists - definite	1.4	2.7	(1.3)	(48.1)%
Digital Games development, included in cost of sales	2.4	2.1	0.3	14.3 %
Computer software	1.1	1.8	(0.7)	(38.9)%
	22.9	13.8	9.1	65.9 %
Right-of-use assets	6.0	6.1	(0.1)	(1.6)%
Depreciation and amortization	43.7	34.5	9.2	26.7 %

(US\$ millions)	Six Months Ended Jun 30			
	2023	2022	\$ Change	% Change
Included in cost of sales	31.4	19.8	11.6	58.6 %
Included in expenses	12.3	14.7	(2.4)	(16.3)%
Depreciation and amortization	43.7	34.5	9.2	26.7 %

For the six months ended June 30, 2023, depreciation and amortization increased by \$9.2 million to \$43.7 million primarily due to higher depreciation and amortization related to intangible assets.

Depreciation and amortization related to property, plant and equipment increased by \$0.2 million or 1.4%, primarily due to higher depreciation for Equipment, partially offset by lower depreciation of moulds, dies and tools.

Depreciation and amortization related to intangible assets increased by \$9.1 million or 65.9%, as a result of higher amortization for entertainment content due to higher content deliveries in the current year.

Foreign Exchange Loss (Gain) as compared to the same period in 2022:

For the three months ended June 30, 2023, the Company recognized a net foreign exchange loss of \$11.4 million (comprised of an unrealized loss of \$25.6 million and realized gain of \$14.2 million) as compared to a foreign exchange gain of \$32.3 million (comprised of an unrealized gain of \$22.3 million and realized gain of \$10.0 million).

For the six months ended June 30, 2023, the Company recognized a foreign exchange loss of \$15.7 million (comprised of an unrealized loss of \$26.2 million and realized gain of \$10.5 million), compared to a foreign exchange gain of \$22.7 million (comprised of a realized gain of \$10.8 million and an unrealized gain of \$11.9 million).

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

Operating Income and Adjusted Operating Income¹ as compared to the same period in 2022:

Operating Income for the three months ended June 30, 2023, was \$34.4 million compared to Operating Income of \$118.2 million, representing a decrease of \$83.8 million. Adjusted Operating Income¹ for the three months ended June 30, 2023 was \$62.6 million, a decrease of \$35.0 million from an Adjusted Operating Income¹ of \$97.6 million. The decrease in Operating Income was primarily driven by an increase in Operating Loss from Corporate and Other of \$44.4 million and a decrease in Operating Income from the Toys segment of \$38.8 million.

Operating Income for the six months ended June 30, 2023 was \$28.3 million, an decrease of \$151.6 million from \$179.9 million. Adjusted Operating Income¹ for the six months ended June 30, 2023 was \$75.3 million, an decrease of \$99.6 million from \$174.9 million. The decrease in Operating Income was primarily driven by a decrease in Operating Income from Toys segment of \$122.0 million and an increase in Operating Loss from Corporate and Other of \$43.5 million, partially offset by a increase in Operating Income from Entertainment segment of \$16.3 million.

Adjusted EBITDA¹ as compared to the same period in 2022:

Adjusted EBITDA¹ for the three months ended June 30, 2023 decreased to \$88.4 million with Adjusted EBITDA Margin¹ of 21.0%, compared to \$113.7 million and 22.5% respectively. The decrease in Adjusted EBITDA¹ was primarily driven by a decrease in gross profit driven by lower Toy revenue and higher product development expenses, partially offset by lower selling, administrative, marketing and distribution expenses. Adjusted EBITDA Margin¹ declined due to lower revenue relative to administrative and product development expenses, partially offset by higher gross margin.

Adjusted EBITDA¹ for the six months ended June 30, 2023 was \$119.0 million compared to \$209.4 million. Adjusted EBITDA Margin¹ was 17.2% compared to 22.5%. The decrease in Adjusted EBITDA¹ was primarily driven by lower gross profit driven by lower Toy revenue and higher product development costs partially offset by lower selling, marketing and distribution expenses. Adjusted EBITDA Margin¹ decreased due to lower revenue relative to administrative, marketing and product development expenses, partially offset by higher gross margin.

Interest Income and Interest Expense as compared to the same period in 2022:

Interest income includes interest earned on cash and cash equivalents held by the Company. Interest expense includes bank fees and financing charges, accretion expense and the amortization of Facility fees.

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

For the three months ended June 30, 2023, interest expense was \$3.3 million, a decrease of \$0.3 million from \$3.6 million in the prior year due to lower accretion expense on lease liabilities and provisions.

For the three months ended June 30, 2023, interest income was \$6.5 million, an increase of \$5.2 million from \$1.3 million in the prior year as a result of higher interest earned on cash and cash equivalents.

For the six months ended June 30, 2023, interest expense was \$6.4 million, an increase of \$0.5 million from \$5.9 million primarily due to higher bank fees and financing charges.

For the six months ended June 30, 2023, interest income was \$13.2 million, an increase of \$11.5 million from \$1.7 million as a result of higher interest earned on cash and cash equivalents.

Income Tax Expense as compared to the same period in 2022:

For the three months ended June 30, 2023, income tax expense was \$9.6 million compared to \$27.8 million. The effective tax rate was 25.5% compared to 24.0%.

For the six months ended June 30, 2023, income tax expense was \$9.0 million compared to \$42.0 million. The effective tax rate was 25.6% compared to 23.9%.

Net Income and Adjusted Net Income¹ as compared to the same period in 2022:

Net income for the three months ended June 30, 2023 was \$28.0 million or \$0.26 per share (diluted), a decrease of \$60.1 million from Net Income of \$88.1 million or \$0.83 per share (diluted). Adjusted Net Income¹ for the three months ended June 30, 2023 was \$48.8 million or \$0.45 per share (diluted), a decrease of \$23.6 million from \$72.4 million or \$0.68 per share (diluted). The decrease in Net Income was primarily driven by the \$52.7 million decrease in gross profit as a result of lower Toy revenue.

Net Income for the six months ended June 30, 2023 was \$26.1 million or \$0.25 per share (diluted), an decrease of \$107.6 million from \$133.7 million or \$1.26 per share (diluted). Adjusted Net Income¹ for the six months ended June 30, 2023 was \$61.1 million or \$0.58 per share (diluted), an decrease of \$68.8 million from \$129.9 million or \$1.22 per share (diluted). The decrease in Net Income was primarily driven by the \$131.5 million decrease in gross profit partially offset by a \$20.2 million decrease in selling, general and administrative expenses.

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 June 30, 2023 and 2022 are as follows:

(US\$ millions)						Q2 2022				
	Toys	Entertainment	Digital Games	Corporate & Other	Total	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	346.3	33.9	40.5	—	420.7	437.6	28.4	40.3	—	506.3
Operating Income	23.8	15.7	9.6	(14.7)	34.4	62.6	17.5	8.4	29.7	118.2
Restructuring and other related costs	9.3	—	0.4	—	9.7	4.4	0.1	—	—	4.5
Foreign exchange loss (gain)	—	—	—	11.4	11.4	—	—	—	(32.3)	(32.3)
Share based compensation	3.8	0.4	0.9	(0.3)	4.8	3.1	0.4	0.6	0.4	4.5
Impairment of intangible assets	—	0.2	0.5	0.3	1.0	—	—	—	—	—
Legal settlement recovery	—	—	—	—	—	—	—	—	(0.6)	(0.6)
Acquisition related deferred incentive compensation	0.7	—	1.4	—	2.1	1.6	—	1.0	—	2.6
Net unrealized gain on investment	—	—	—	(0.3)	(0.3)	—	—	—	(0.1)	(0.1)
Net realized loss (gain) on investment	—	—	—	0.1	0.1	—	—	—	(0.1)	(0.1)
Loss on Minority interest and other investments	—	—	—	—	—	—	—	—	0.5	0.5
Acquisition related contingent consideration	(2.1)	—	—	—	(2.1)	—	—	—	—	—
Transaction costs	—	—	—	1.5	1.5	—	—	—	0.4	0.4
Adjusted Operating Income¹	35.5	16.3	12.8	(2.0)	62.6	71.7	18.0	10.0	(2.1)	97.6
Adjusted Operating Margin¹	10.3%	48.1%	31.6%	n.m.	14.9%	16.4%	63.4%	24.8%	n.m.	19.3%
Depreciation and amortization	12.2	11.7	1.9	—	25.8	11.5	3.1	1.5	—	16.1
Adjusted EBITDA¹	47.7	28.0	14.7	(2.0)	88.4	83.2	21.1	11.5	(2.1)	113.7
Adjusted EBITDA Margin¹	13.8%	82.6%	36.3%	n.m.	21.0%	19.0%	74.3%	28.5%	n.m.	22.5%

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

The Company's results from operations by reportable segment for the six months ended June 30, 2023 and 2022:

Six Months Ended Jun 30										
(US\$ millions)	2023					2022				
	Toys	Entertainment	Digital Games	Corporate & Other	Total	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	532.6	71.5	88.0	—	692.1	788.5	50.6	91.4	—	930.5
Operating (Loss) Income	(18.0)	45.0	25.8	(24.5)	28.3	104.0	28.7	28.2	19.0	179.9
Restructuring and other related costs	12.4	0.1	1.0	—	13.5	4.9	0.1	0.1	—	5.1
Foreign exchange loss (gain)	—	—	—	15.7	15.7	—	—	—	(22.7)	(22.7)
Share based compensation	7.2	0.7	1.5	0.8	10.2	6.1	0.6	1.1	0.8	8.6
Impairment of goodwill	1.0	—	—	—	1.0	—	—	—	—	—
Impairment of property, plant and equipment	0.2	—	—	—	0.2	—	—	—	—	—
Impairment of intangible assets	—	0.4	0.7	1.1	2.2	—	—	—	—	—
Legal settlement expense (recovery)	—	—	—	0.2	0.2	—	—	—	(2.1)	(2.1)
Acquisition related deferred incentive compensation	1.4	—	2.8	—	4.2	3.1	—	2.2	—	5.3
Net unrealized gain on investment	—	—	—	(0.3)	(0.3)	—	—	—	(0.1)	(0.1)
Net realized loss (gain) on investment	—	—	—	0.1	0.1	—	—	—	(0.1)	(0.1)
Loss on Minority interest and other investments	—	—	—	—	—	—	—	—	0.5	0.5
Acquisition related deferred consideration	(2.1)	—	—	—	(2.1)	—	—	—	—	—
Transaction costs	—	—	—	2.1	2.1	—	—	—	0.5	0.5
Adjusted Operating Income¹	2.1	46.2	31.8	(4.8)	75.3	118.1	29.4	31.6	(4.2)	174.9
Adjusted Operating Margin¹	0.4%	64.6%	36.1%	n/a	10.9%	15.0%	58.1%	34.6%	n/a	18.8%
Depreciation and amortization	24.2	15.4	3.9	0.2	43.7	24.0	7.5	3.0	—	34.5
Adjusted EBITDA¹	26.3	61.6	35.7	(4.6)	119.0	142.1	36.9	34.6	(4.2)	209.4
Adjusted EBITDA Margin¹	4.9%	86.2%	40.6%	n.m.	17.2%	18.0%	72.9%	37.9%	n.m.	22.5%

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

Toys Segment Results

The following table provides a summary of Toys segment operating results for the three months ended June 30, 2023 and 2022:

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Toy Gross Product Sales ^{1, 2}	390.0	484.4	(94.4)	(19.5)%
Toy revenue	346.3	437.6	(91.3)	(20.9)%
Operating Income	23.8	62.6	(38.8)	(62.0)%
Operating Margin	6.9 %	14.3 %		(7.4)%
Adjusted EBITDA ¹	47.7	83.2	(35.5)	(42.7)%
Adjusted EBITDA Margin ¹	13.8 %	19.0 %		(5.2)%
Selected Cash Flow Data				
Toys capital expenditures	12.3	9.8	2.5	25.5 %

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 declined by \$91.3 million or 20.9% to \$346.3 million primarily driven by a decrease in Toy Gross Product Sales¹. Toy Gross Product Sales¹ declined by \$94.4 million or 19.5%, to \$390.0 million from \$484.4 million as a result of lower order volume, as customers focused on reducing their retail inventory levels carried forward from Q4 2022. In comparison, Toy Gross Product Sales¹ in 2022 was supported by customers ordering earlier in the year.

Constant Currency Toy Gross Product Sales¹ decreased by \$96.7 million or 20.0% to \$387.7 million, down from \$484.4 million.

Operating Income was \$23.8 million compared to \$62.6 million representing a decrease of \$38.8 million. Operating Margin was 6.9% compared to 14.3%. Adjusted EBITDA¹ decreased by \$35.5 million to \$47.7 million. Adjusted EBITDA Margin¹ was 13.8% compared to 19.0%. The decline was due to lower Toy revenue relative to administrative and marketing expenses, partially offset by higher gross margin.

Toys capital expenditures increased by \$2.5 million to \$12.3 million, primarily as a result of investments in an asset acquisition of a games and puzzles company.

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

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

(US\$ millions)	Six Months Ended Jun 30		\$ Change	% Change
	2023	2022		
Toy Gross Product Sales ^{1,2}	606.3	881.9	(275.6)	(31.3)%
Toy revenue	532.6	788.5	(255.9)	(32.5)%
Operating (Loss) Income	(18.0)	104.0	(122.0)	(117.3)%
Operating Margin	(3.4)%	13.2 %		(16.6)%
Adjusted EBITDA ¹	26.3	142.1	(115.8)	(81.5)%
Adjusted EBITDA Margin ¹	4.9 %	18.0 %		(13.1)%
Selected Cash Flow and Balance Sheet Data				
Toys capital expenditures	20.1	17.0	3.1	18.2 %
	Jun 30,	Dec 31,	\$ Change	% Change
	2023	2022		
Moulds, dies and tools, net carrying amount	21.7	19.2	2.5	13.0 %

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

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

Toy revenue decreased by \$255.9 million or 32.5% to \$532.6 million driven by a decline in Toy Gross Product Sales¹. Toy Gross Product Sales¹ decreased by \$275.6 million or 31.3%, to \$606.3 million from \$881.9 million as a result of lower order volume in the first half of the year, as customers focused on reducing their retail inventory levels carried forward from Q4 2022. In comparison, Toy Gross Product Sales¹ in 2022 was supported by customers ordering earlier in the year and sales related to the launch of the *DC Comics Batman* movie and *PAW Patrol: The Movie*.

Constant Currency Toy Gross Product Sales¹ decreased by \$274.5 million or 31.1% to \$607.4 million, down from \$881.9 million.

Operating Income decreased by \$122.0 million or 117.3% to \$18.0 million. Operating Margin was (3.4)% compared to 13.2%. Adjusted EBITDA¹ decreased by \$115.8 million to \$26.3 million. Adjusted EBITDA Margin¹ was 4.9% compared to 18.0%. The decline to Adjusted EBITDA Margin¹ was due to lower Toy revenue relative to administrative, marketing and distribution expenses.

Toys capital expenditures increased by \$3.1 million to \$20.1 million, primarily as a result of investments in an asset acquisition of a games and puzzles company.

Moulds, dies and tools, net carrying amount was \$21.7 million compared to \$19.2 million.

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

Toy Revenue

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

The following table provides a summary of Spin Master's Toy revenue, including Toy Gross Product Sales¹ by product category, for the three months ended June 30, 2023 and 2022:

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Preschool and Dolls & Interactive	181.3	228.8	(47.5)	(20.8)%
Activities, Games & Puzzles and Plush	93.4	123.6	(30.2)	(24.4)%
Wheels & Action	101.0	115.8	(14.8)	(12.8)%
Outdoor	14.3	16.2	(1.9)	(11.7)%
Toy Gross Product Sales¹	390.0	484.4	(94.4)	(19.5)%
Sales Allowances ²	(43.7)	(46.8)	(3.1)	(6.6)%
<i>Sales Allowances % of GPS</i>	<i>11.2 %</i>	<i>9.7 %</i>		<i>1.5 %</i>
Toy revenue	346.3	437.6	(91.3)	(20.9)%

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

² The Company enters into arrangements to provide sales allowances requested by customers relating to cooperative advertising, contractual and negotiated discounts, volume rebates, and costs incurred by customers to sell the Company's products.

Preschool and Dolls & Interactive decreased by \$47.5 million or 20.8% to \$181.3 million, primarily from a decrease in sales of *PAW Patrol*, *Wizarding World*, *Hatchimals* and *Purse Pets*, partially offset by an increase in *Bitzee*, *Rubble & Crew* and *Gabby's Dollhouse*.

Activities, Games & Puzzles and Plush decreased by \$30.2 million or 24.4% to \$93.4 million, mainly due to a decrease in the Games & Puzzles portfolio and *Kinetic Sand*.

Wheels & Action decreased by \$14.8 million or 12.8% to \$101.0 million, due to decreases in *DC* and *Bakugan*.

Outdoor decreased by \$1.9 million or 11.7% to \$14.3 million, primarily due to a decrease in *SwimWays* and *Aerobie*.

Sales Allowances decreased by \$3.1 million to \$43.7 million. As a percentage of Toy Gross Product Sales¹, Sales Allowances increased to 11.2% from 9.7%, primarily driven by geographic and customer mix.

Revenue by Geographic Area

Toy Gross Product Sales¹ by geographical area are based on the location of the customers. The following table provides a summary of Spin Master's Toy Gross Product Sales¹ by geographic area for the three months ended June 30, 2023 and 2022:

	Q2 2023		Q2 2022		Change	
(US\$ millions)	\$	% of GPS	\$	% of GPS	\$	% of GPS
North America	238.6	61.1 %	340.1	70.2 %	(101.5)	(9.1)%
Europe	92.8	23.8 %	86.4	17.8 %	6.4	6.0 %
Rest of World	58.6	15.0 %	57.9	12.0 %	0.7	3.0 %
International	151.4	38.8 %	144.3	29.8 %	7.1	9.0 %
Toy Gross Product Sales¹	390.0	100.0 %	484.4	100.0 %	(94.4)	
Sales Allowances	(43.7)	(11.2)%	(46.8)	(9.7)%	3.1	(1.5)%
Toy revenue	346.3		437.6		(91.3)	

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

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

As a percentage of Toy Gross Product Sales¹, the North America segment decreased 9.1% to 61.1% compared to 70.2%. International sales, comprised of the Europe and Rest of World segments, increased 9.0% to 38.8% compared to 29.8%.

North America decreased by \$101.5 million or 29.8% to \$238.6 million, which includes an unfavourable foreign exchange impact of \$0.1 million. The decrease was driven by *PAW Patrol*, *Gabby's Dollhouse*, *Hatchimals*, *Wizarding World*, *DC*, the Games & Puzzles portfolio, *Bakugan*, *Purse Pets* and *Kinetic Sand*, partially offset by an increase from *Rubble & Crew* and *Firebuds*.

Europe increased by \$6.4 million or 7.4% to \$92.8 million, which includes a favourable foreign exchange impact of \$0.9 million. The increase was mainly driven by *Gabby's Dollhouse* and *Bitzee* offset by a decrease in *PAW Patrol*, *Bakugan* and *DC*.

Rest of World increased by \$0.7 million or 1.2% to \$58.6 million, which includes a favourable foreign exchange impact of \$1.5 million. The increase arose from *Gabby's Dollhouse*, *Bitzee* and *DC*, partially offset by a decrease in *PAW Patrol*.

For the six months ended June 30, 2023, as compared to the same period in 2022:

The following table provides a summary of Spin Master's Toy revenue, including Toy Gross Product Sales¹ by product category, for the six months ended June 30, 2023 and 2022:

(US\$ millions)	Six Months Ended Jun 30			
	2023	2022	\$ Change	% Change
Preschool and Dolls & Interactive	265.3	380.6	(115.3)	(30.3)%
Activities, Games & Puzzles and Plush	154.5	225.5	(71.0)	(31.5)%
Wheels & Action	144.8	215.5	(70.7)	(32.8)%
Outdoor	41.7	60.3	(18.6)	(30.8)%
Toy Gross Product Sales¹	606.3	881.9	(275.6)	(31.3)%
Sales Allowances ²	(73.7)	(93.4)	(19.7)	(21.1)%
<i>Sales Allowances % of GPS</i>	<i>12.2 %</i>	<i>10.6 %</i>		<i>1.6 %</i>
Toy revenue	532.6	788.5	(255.9)	(32.5)%

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

² The Company enters into arrangements to provide sales allowances requested by customers relating to cooperative advertising, contractual and negotiated discounts, volume rebates, and costs incurred by customers to sell the Company's products.

Preschool and Dolls & Interactive decreased by \$115.3 million or 30.3% to \$265.3 million, mainly due to lower sales of *PAW Patrol*, *Hatchimals*, *Wizarding World* and *Purse Pets*, offset by an increase in *Rubble & Crew*, *Bitzee* and *Gabby's Dollhouse*.

Activities, Games & Puzzles and Plush decreased by \$71.0 million or 31.5% to \$154.5 million, mainly due to lower sales of the Games & Puzzles portfolio, *Kinetic Sand*, *GUND* and *Cool Maker*, offset in part by *Rubik's*.

Wheels & Action decreased by \$70.7 million or 32.8% to \$144.8 million, led by decreases in *DC*, *Bakugan* and *Monster Jam*, offset in part by *HEXBUG*.

Outdoor declined by \$18.6 million or 30.8% to \$41.7 million, primarily driven by *SwimWays*.

Sales Allowances decreased by \$19.7 million to \$73.7 million. As a percentage of Toy Gross Product Sales¹, Sales Allowances increased to 12.2% from 10.6%, primarily driven by geographic and customer mix.

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

Revenue by Geographic Area

The following table provides a summary of Spin Master's Toy Gross Product Sales¹ by geographic area for the six months ended June 30, 2023 and 2022:

Six Months Ended Jun 30						
(US\$ millions)	2023	% of GPS	2022	% of GPS	\$ Change	Change in % of GPS
North America	344.1	56.8 %	578.7	65.6 %	(234.6)	(8.8)%
Europe	168.8	27.8 %	200.0	22.7 %	(31.2)	5.1 %
Rest of World	93.4	15.4 %	103.2	11.7 %	(9.8)	3.7 %
International	262.2	43.3 %	303.2	34.5 %	(41.0)	8.8 %
Toy Gross Product Sales¹	606.3	100.0 %	881.9	100.0 %	(275.6)	
Sales Allowances	(73.7)	12.2 %	(93.4)	10.6 %	19.7	1.6 %
Toy revenue	532.6		788.5		(255.9)	

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

As a percentage of Toy Gross Product Sales¹, the North America segment decreased 8.8% to 56.8% compared to 65.6%. International sales, comprised of the Europe and Rest of World segments, increased 8.8% to 43.3% compared to 34.5%.

North America declined by \$234.6 million or 40.5% to \$344.1 million, with an unfavourable foreign exchange impact of \$0.2 million. The decrease was driven by *PAW Patrol*, *Gabby's Dollhouse*, *DC*, the Games & Puzzles portfolio, *Hatchimals*, *Kinetic Sand* and *Bakugan* offset by *Rubble & Crew*.

Europe declined by \$31.2 million or 15.6% to \$168.8 million, with an unfavourable foreign exchange impact of \$2.9 million. The decrease was driven by *PAW Patrol*, *DC*, *Wizarding World*, *Purse Pets*, *Hatchimals* and *Bakugan* partially offset by *Gabby's Dollhouse* and *Bitzee*.

Rest of World decreased by \$9.8 million or 9.5% to \$93.4 million, with a favourable foreign exchange impact of \$2.0 million. The decrease was driven by *PAW Patrol*, *DC* and *Bakugan* offset in part by *Gabby's Dollhouse* and *Bitzee*.

Toys Segment Trend Analysis

(US\$ millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Toy Gross Product Sales ¹	390.0	216.3	479.2	617.7	484.4	397.5	627.5	681.2
Toy revenue	346.3	186.3	396.7	552.4	437.6	350.9	542.0	607.8
Operating Income (Loss)	23.8	(41.8)	(43.3)	109.4	62.6	41.4	14.6	128.0
Operating Margin	6.9%	(22.4)%	(10.9)%	19.8%	14.3%	11.8%	2.7%	21.1%
Adjusted EBITDA ¹	47.7	(21.4)	(24.4)	126.9	83.2	58.9	40.8	146.5
Adjusted EBITDA Margin ¹	13.8%	(11.5)%	(6.2)%	23.0%	19.0%	16.8%	7.5%	24.1%

Selected Cash Flow and Balance Sheet Data

Toys capital expenditures	12.3	7.8	7.5	7.9	9.8	7.2	3.8	9.1
Moulds, dies and tools, net carrying amount ²	21.7	20.0	19.2	19.5	23.5	21.9	21.2	23.6

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 concentrated in the third and fourth quarters of each fiscal year, with a significant portion of Operating Income earned and cash flows generated during the same period.
- In 2022, Toy Gross Product Sales¹ volume was pulled forward from the third quarter into the first and second quarters as retailers ordered earlier in the year to minimize supply chain disruptions.
- The third and fourth quarters of 2022 were pressured by the macroeconomic environment, particularly from higher inflation compounded by foreign exchange volatility and a carry-over of inventory at retailers from the first half of 2022. These factors resulted in a strong first half of 2022 with Toy Gross Product Sales¹ representing 45 percent of the 2022 annual Toy Gross Product Sales¹.
- Toy Gross Product Sales¹ volume in the first half of 2023 was lower than 2022 as customers focused on decreasing retail inventory levels from Q4 2022.
- The Company expects that Toy Gross Product Sales¹ seasonality for 2023 will return to historical trends of 30 percent to 35 percent in the first half and 65 percent to 70 percent in the second half of the year.
- Other factors affecting 2021 results include COVID-19 pandemic related impacts.

Entertainment Segment Results

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

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Entertainment revenue	33.9	28.4	5.5	19.4 %
Operating Income	15.7	17.5	(1.8)	(10.3)%
Operating Margin	46.3 %	61.6 %		(15.3)%
Adjusted Operating Income ¹	16.3	18.0	(1.7)	(9.4)%
Adjusted Operating Margin ¹	48.1 %	63.4 %		(15.3)%
Selected Cash Flow Data				
Entertainment capital expenditures	10.9	14.9	(4.0)	(26.8)%

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

Entertainment revenue increased by \$5.5 million or 19.4% to \$33.9 million, from higher distribution revenue due to new content deliveries of *Vida the Vet*, *Rubble & Crew* and *Unicorn Academy*. Also contributing to the increase was the Company's share of revenue related to the continued distribution of *PAW Patrol: The Movie*. Licensing and merchandising revenue declined for the period. Constant Currency Entertainment Revenue¹ increased by \$5.6 million or 19.7% to \$34.0 million, up from \$28.4 million.

Operating Income decreased by \$1.8 million or 10.3% to \$15.7 million. Operating Margin was 46.3% compared to 61.6%. Adjusted Operating Income¹ was \$16.3 million compared to \$18.0 million. Adjusted Operating Margin¹ was 48.1% compared to 63.4%.

The decline in Operating Income, Adjusted Operating Income¹, and Adjusted Operating Margin¹ was primarily due to higher amortization of production costs from new content deliveries.

Entertainment capital expenditures decreased by \$4.0 million to \$10.9 million, primarily as a result of lower content development production costs of *PAW Patrol: The Mighty Movie*, *Rubble and Crew*, *Vida the Vet* and *Unicorn Academy*.

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

(US\$ millions)	Six Months Ended Jun 30			
	2023	2022	\$ Change	% Change
Entertainment revenue	71.5	50.6	20.9	41.3 %
Operating Income	45.0	28.7	16.3	56.8 %
Operating Margin	62.9 %	56.7 %		6.2 %
Adjusted Operating Income ²	46.2	29.4	16.8	57.1 %
Adjusted Operating Margin ²	64.6 %	58.1 %		6.5 %
Selected Cash Flow and Balance Sheet Data				
Entertainment capital expenditures	29.3	21.7	7.6	35.0 %
	Jun 30	Dec 31	\$ Change	% Change
	2023	2022		
Entertainment content development, net carrying amount	90.8	77.1	13.7	17.8 %

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

Entertainment revenue increased by \$20.9 million or 41.3% to \$71.5 million, due to the Company's share of revenue from the continued distribution of *PAW Patrol: The Movie* and the *PAW Patrol* series, as well as higher distribution revenue from new content deliveries of *Vida the Vet*, *Rubble & Crew* and *Unicorn Academy*. Constant Currency Entertainment Revenue¹ increased by \$21.0 million or 41.5% to \$71.6 million, up from \$50.6 million.

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

Operating Income increased by \$16.3 million or 56.8% to \$45.0 million. Adjusted Operating Income¹ was \$46.2 million compared to \$29.4 million. Operating Income and Adjusted Operating Income¹ increased due to higher distribution revenue.

Operating Margin increased by 6.2% from 56.7% to 62.9%. Adjusted Operating Margin¹ increased by 6.5% from 58.1% to 64.6%. The increase in both Operating Margin and Adjusted Operating Margin¹ was driven primarily by a shift in the revenue mix to continued distribution revenue and licensing and merchandising revenue.

Entertainment capital expenditures increased by \$7.6 million to \$29.3 million, primarily as a result of higher content development costs driven by production of *PAW Patrol: The Mighty Movie*, *Rubble & Crew*, and *Vida the Vet*.

Entertainment content development, net carrying amount increased by \$13.7 million to \$90.8 million, primarily as a result of content production costs on series and films, including *PAW Patrol* series, *PAW Patrol: The Mighty Movie* and other projects in production.

Entertainment Segment Trend Analysis

(US\$ millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Entertainment revenue	33.9	37.6	31.2	37.0	28.4	22.2	28.5	52.9 ¹
Operating Income	15.7	29.3	19.1	28.9	17.5	11.2	12.1	18.2
Operating Margin	46.3%	77.9%	61.2%	78.1%	61.6%	50.5%	42.5%	34.4%
Adjusted Operating Income ²	16.3	29.9	20.5	29.2	18.0	11.4	13.4	18.3
Adjusted Operating Margin ²	48.1%	79.5%	65.7%	78.9%	63.4%	51.4%	47.0%	34.6%
Selected Cash Flow and Balance Sheet Data								
Entertainment capital expenditures	10.9	18.4	11.9	21.3	14.9	6.8	12.1	8.5
Entertainment content development, net carrying amount ^{3,4}	90.8	90.5	77.1	57.4	41.3	30.2	27.4	20.1

¹ Includes Entertainment revenue associated with the initial theatrical release of *PAW Patrol: The 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.

⁴ Q2 2023 includes *PAW Patrol* series and *PAW Patrol: The Mighty Movie* related production costs.

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

- In the first half of 2023, Entertainment capital expenditures and content development, net carrying amount in intangibles assets increased primarily due to the capitalized costs for the production of *PAW Patrol: The Mighty Movie*.
- In Q1 2023 and Q3 2022, Entertainment segment experienced higher Operating and Adjusted Operating Margins¹ from higher licensing and merchandising revenue, as well as lower costs due to fewer content deliveries compared to other quarters.
- In Q3 2021, Entertainment revenue included \$26.0 million of distribution revenue from the initial theatrical release of *PAW Patrol: The Movie*.

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 June 30, 2023 and 2022:

(US\$ millions)	Q2 2023	Q2 2022	\$ Change	% Change
Digital Games revenue	40.5	40.3	0.2	0.5 %
Operating Income	9.6	8.4	1.2	14.3 %
Operating Margin	23.7 %	20.8 %		2.9 %
Adjusted Operating Income ¹	12.8	10.0	2.8	28.0 %
Adjusted Operating Margin ¹	31.6 %	24.8 %		6.8 %
Selected Cash Flow Data				
Digital Games capital expenditures	5.1	2.8	2.3	82.1 %

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

Digital Games revenue increased by \$0.2 million or 0.5% to \$40.5 million. Constant Currency Digital Games Revenue increased by \$1.1 million or 2.7% to \$41.4 million, up from \$40.3 million. The increase in Digital Games revenue and Constant Currency Digital Games Revenue¹ were primarily due to higher in-game purchases in the *Toca Life World* platform.

Operating Income increased by \$1.2 million or 14.3% to \$9.6 million. Adjusted Operating Income¹ increased by \$2.8 million or 28.0% to \$12.8 million from \$10.0 million. The increase in Operating Income and Adjusted Operating Income¹ was due higher in-game purchases in the *Toca Life World* platform and a reduction in marketing spend.

Operating Margin increased by 2.9% from 20.8% to 23.7%. Adjusted Operating Margin¹ increased by 6.8% from 24.8% to 31.6%. Operating Margin and Adjusted Operating Margin¹ increased due to lower marketing and administrative expenses.

Digital Games capital expenditures were \$5.1 million compared to \$2.8 million, an increase of \$2.3 million or 82.1%, primarily as a result of higher digital game development costs including *Toca Days*, *Paw Patrol Academy*, *Toca Life World* and *Rubik's*.

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

(US\$ millions)	Six Months Ended Jun 30			
	2023	2022	\$ Change	% Change
Digital Games revenue	88.0	91.4	(3.4)	(3.7)%
Operating Income	25.8	28.2	(2.4)	(8.5)%
Operating Margin	29.3 %	30.9 %		(1.6)%
Adjusted Operating Income ¹	31.8	31.6	0.2	0.6 %
Adjusted Operating Margin ¹	36.1 %	34.6 %		1.5 %
Selected Cash Flow and Balance Sheet Data				
Digital Games capital expenditures	9.0	5.3	3.7	69.8 %
	Jun 30	Dec 31	\$ Change	% Change
	2023	2022		
Digital Games development, net carrying amount	22.0	17.1	4.9	28.7 %

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

Digital Games revenue declined by \$3.4 million or 3.7% to \$88.0 million. Constant Currency Digital Games Revenue¹ decreased by \$0.9 million or 1.0% to \$90.5 million, down from \$91.4 million. The declines in Digital

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

Games revenue and Constant Currency Digital Games Revenue¹ were due to lower in-game purchases in the *Toca Life World* platform.

Operating Income decreased by \$2.4 million or 8.5% to \$25.8 million. Adjusted Operating Income¹ increased by \$0.2 million or 0.6% to \$31.8 million from \$31.6 million. The declines in Operating Income and Adjusted Operating Income¹ are attributable to higher product development and personnel costs, as well as lower in-game purchases in the *Toca Life World* platform.

Operating Margin was 29.3% compared to 30.9%. Adjusted Operating Margin¹ was 36.1% compared to 34.6%. Operating Margin decreased due to higher acquisition related deferred incentive compensation, partially offset by lower marketing expenses. Adjusted Operating Margin¹ increased due to lower marketing expenses.

Digital Games capital expenditures were \$9.0 million compared to \$5.3 million, an increase of \$3.7 million or 69.8%, primarily as a result of higher development costs related to both current and future digital games including *Toca Days*, *PAW Patrol Academy* and *Rubik's*.

Digital Games development, net carrying balance was \$22.0 million compared to \$17.1 million.

Digital Games Segment Trend Analysis

(US\$ millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Digital Games revenue	40.5	47.5	37.9	34.6	40.3	51.1	50.0	53.8
Operating Income	9.6	16.2	10.1	8.2	8.4	19.8	17.3	24.2
Operating Margin	23.7 %	34.1 %	26.6 %	23.7 %	20.8 %	38.7%	34.6%	45.0%
Adjusted Operating Income ¹	12.8	19.0	12.3	10.0	10.0	21.6	19.0	26.0
Adjusted Operating Margin ¹	31.6 %	40.0%	32.5%	28.9%	24.8 %	42.3%	38.0%	48.3%

Selected Cash Flow and Balance Sheet Data

Digital Games capital expenditures	5.1	3.9	3.9	2.9	2.8	2.5	2.9	2.4
Digital Games development, net carrying amount ²	22.0	19.4	17.1	14.6	14.2	13.6	12.8	11.9

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

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

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

- Digital Games revenue is typically higher in the first quarter of each fiscal year, with proportionate Operating Income and cash flows generated during the same period.
- Operating and Adjusted Operating Margins¹ 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.
- Other factors affecting 2021 results include COVID-19 pandemic related impacts driving higher Digital Games revenue in the period.
- In the first half of 2023, Digital Games capital expenditure and Digital Games development, net carrying amount in intangibles assets increased primarily due to the capitalized costs for the development of new games including *Toca Days*, *Paw Patrol Academy* and *Rubik's*.

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

For the three months ended June 30, 2023, Operating Loss for Corporate & Other was \$14.7 million a decrease of \$44.4 million compared to an Operating Income of \$29.7 million. Adjusted Operating Loss¹ was \$2.0 million compared to \$2.1 million.

For the six months ended June 30, 2023, Operating Loss was \$24.5 million compared to an Operating Income of \$19.0 million, a change of \$43.5 million as a result of a foreign exchange loss of \$15.7 million compared to a foreign exchange gain of \$22.7 million. Adjusted Operating Loss¹ increased to \$4.8 million compared to \$4.2 million.

INVESTMENTS AND 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 under IFRS 3, Business Combinations (“IFRS 3”) and has determined that the assets and processes acquired comprised a business and there, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition complements the Company's existing puzzle games offering and has been reported in the Toys segment within the Activities, Games & Puzzles and Plush product category and included in the Games and Puzzles cash generating unit (“CGU”) beginning from the date of acquisition.

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

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

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

Acquisition of certain assets from Innovation First International, Inc.

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

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

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

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

Prior year acquisitions

Acquisition of certain assets from SolidRoots, LLC

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

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

Acquisition of the remaining shares of Nørdlight Games AB

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

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

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

Spin Master Ventures

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

The SMV portfolio currently consists of the following investments:

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in US\$ millions, except EPS)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Revenue	420.7	271.4	465.8	624.0	506.3	424.2	620.5	714.5
Operating Income (Loss)	34.4	(6.1)	(24.0)	187.4	118.2	61.7	39.1	179.5
Operating Margin	8.2%	(2.2)%	(5.2)%	30.0%	23.3%	14.5%	6.3%	25.1%
Adjusted Operating Income (Loss) ¹	62.6	12.7	(5.5)	151.8	97.6	77.3	55.3	175.6
Adjusted Operating Margin ¹	14.9%	4.7%	(1.2)%	24.3%	19.3%	18.2%	8.9%	24.6%
Net Income (Loss)	28.0	(1.9)	(13.8)	141.4	88.1	45.6	26.5	135.4
Basic EPS	\$0.27	\$(0.02)	\$(0.13)	\$1.37	\$0.86	\$0.45	\$0.26	\$1.32
Diluted EPS	\$0.26	\$(0.02)	\$(0.13)	\$1.33	\$0.83	\$0.43	\$0.25	\$1.29
Adjusted EBITDA ¹	88.4	30.6	12.4	167.6	113.7	95.7	78.3	217.3
Adjusted EBITDA Margin ¹	21.0%	11.3%	2.7%	26.9%	22.5%	22.6%	12.6%	30.4%
Adjusted Net Income ¹	48.8	12.3	—	114.4	72.4	57.5	38.7	132.6
Adjusted Basic EPS ¹	\$0.47	\$0.12	\$—	\$1.11	\$0.70	\$0.56	\$0.38	\$1.30
Adjusted Diluted EPS ¹	\$0.45	\$0.12	\$—	\$1.08	\$0.68	\$0.55	\$0.37	\$1.26
Balance Sheet and Cash Flow								
Cash and cash equivalents	554.9	569.3	644.3	674.9	558.1	493.1	562.7	360.5
Cash provided by (used in) operating activities	19.1	(4.3)	(6.8)	207.3	111.6	(62.9)	230.1	85.8
Cash used in investing activities	(30.3)	(56.6)	(28.2)	(42.3)	(30.4)	(8.3)	(19.6)	(22.7)
Free Cash Flow ¹	(5.9)	(34.4)	(30.1)	175.3	84.1	(79.4)	211.3	65.8

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

In addition to the seasonality factors outlined in the the Toys, Entertainment and Digital Games segment trend analysis, the following quarterly highlights have impacted the Company's results to from quarter to quarter:

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

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2023, the Company had Cash and cash equivalents of \$554.9 million (December 31, 2022 - \$644.3 million).

The Company has an unsecured five-year revolving credit facility (the "Facility") with a borrowing capacity of \$510.0 million which matures on September 28, 2026, and contains certain financial covenants. The Facility also has an option which permits the Company to increase the total capital available by an additional \$200.0 million. Total financing costs of \$1.9 million, which include Facility amendment fees and related legal fees, are recognized in Other assets and are being amortized over the term of the amended and restated agreement.

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

The Company has an uncommitted Overdraft Facility Agreement (the "European Facility") for \$16.3 million (equivalent to €15.0 million). The European Facility will be used, if needed, to fund working capital requirements in Europe. As at June 30, 2023, the outstanding balance was \$nil (December 31, 2022 - \$nil).

The Company has an uncommitted Revolving Credit Facility to finance television and film production. The limit of the credit facility (the "Production Facility") is \$7.5 million (equivalent to CA\$10.0 million). As at June 30, 2023, the outstanding balance of the Production Facility was \$nil (December 31, 2022 - \$nil).

As at June 30, 2023, the Company had unutilized liquidity of \$1,063.5 million, comprised of \$554.9 million in Cash and cash equivalents and \$508.6 million under the Company's credit facilities.

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

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

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

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

Short Form Base Shelf Prospectus

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

Capital and Investment Framework

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

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

CASH FLOW

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

(US\$ millions)	Q2 2023	Q2 2022	\$ Change
Net cash flows provided by operating activities	19.1	111.6	(92.5)
Net cash flows used in investing activities	(30.3)	(30.4)	0.1
Net cash flows used in financing activities	(12.7)	(3.8)	(8.9)
Net (decrease) increase in cash and cash equivalents (excluding the effect of foreign currency exchange rate changes on cash and cash equivalents)	(23.9)	77.4	(101.3)
Effect of foreign currency exchange rate changes on cash and cash equivalents	9.5	(12.4)	21.9
Cash and cash equivalents, beginning of period	569.3	493.1	76.2
Cash and cash equivalents, end of period	554.9	558.1	(3.2)

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

	Six Months Ended Jun 30		
(US\$ millions)	2023	2022	\$ Change
Net cash flows provided by operating activities	14.8	48.7	(33.9)
Net cash flows used in investing activities	(86.9)	(38.7)	(48.2)
Net cash flows used in financing activities	(27.5)	(7.7)	(19.8)
Net (decrease) increase in cash and cash equivalents (excluding the effect of foreign currency exchange rate changes)	(99.6)	2.3	(101.9)
Effect of foreign currency exchange rate changes on cash and cash equivalents	10.2	(6.9)	17.1
Cash and cash equivalents, beginning of period	644.3	562.7	81.6
Cash and cash equivalents, end of period	554.9	558.1	(3.2)

Operating Activities as compared to the same period in 2022:

Cash flows provided by operating activities were \$19.1 million for the three months ended June 30, 2023 compared to \$111.6 million driven by the change in net working capital (a decrease of \$65.9 million as compared to an increase of \$7.7 million in the comparative period) and lower Operating Income as a result of

fewer orders, as customers focused on decreasing retail inventory levels from Q4 2022, compared to the prior year.

Cash flows provided by operating activities were \$14.8 million for the six months ended June 30, 2023 compared to \$48.7 million driven by lower Operating Income as a result of fewer orders, as customers focused on decreasing retail inventory levels from Q4 2022, compared to the prior year and the change in net working capital (a decrease of \$60.5 million as compared to a decrease of \$124.1 million in the comparative period).

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

(US\$ millions)	Six Months Ended Jun 30		\$ Change
	2023	2022	
Decrease (increase) in:			
Trade receivables, net	8.6	56.9	(48.3)
Other receivables	(12.7)	(5.6)	(7.1)
Inventories, net	(46.0)	(41.6)	(4.4)
Prepaid expenses and other assets	(13.8)	(11.4)	(2.4)
Assets held for sale	—	(8.9)	8.9
	(63.9)	(10.6)	(53.3)
Increase (decrease) in:			
Trade payables and accrued liabilities	7.3	(105.9)	113.2
Deferred revenue	4.5	(0.1)	4.6
Provisions	(8.4)	(7.5)	(0.9)
	3.4	(113.5)	116.9
Net changes in non-cash working capital	(60.5)	(124.1)	63.6

Net Working Capital¹

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

(US\$ millions)	Jun 30,	Dec 31,	\$ Change
	2023	2022	
Trade receivables, net ¹	272.4	311.0	(38.6)
Other receivables ²	60.0	49.5	10.5
Inventories, net ³	151.6	105.1	46.5
Prepaid expenses and other assets	35.1	22.3	12.8
Current assets	519.1	487.9	31.2
Trade payables	178.9	153.0	25.9
Accrued liabilities ⁴	153.5	186.4	(32.9)
Deferred revenue	16.1	11.5	4.6
Provisions	26.6	30.7	(4.1)
Current liabilities	375.1	381.6	(6.5)
Net working capital	144.0	106.3	37.7

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

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

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

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

Total net working capital increased by \$37.7 million to \$144.0 million at June 30, 2023 from \$106.3 million. Excluding the impact of foreign exchange, total net working capital increased by \$60.5 million.

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

Trade receivables, net, decreased by \$38.6 million to \$272.4 million at June 30, 2023 from \$311.0 million, driven by lower sales in the first half of 2023.

Other receivables increased by \$10.5 million to \$60.0 million at June 30, 2023 from \$49.5 million, driven primarily by an increase in investment tax credits receivables.

Inventories, net, increased by \$46.5 million to \$151.6 million at June 30, 2023 from \$105.1 million, due to the timing of the purchase of inventories in line with the seasonality of the business.

Trade payables and accrued liabilities decreased by \$7.0 million to \$332.4 million at June 30, 2023 from \$339.4 million, driven by the timing of purchasing activity and payments.

Investing Activities as compared to the same period in 2022:

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

(US\$ millions)	Q2 2023	Q2 2022	\$ Change
Property, plant and equipment			
Tooling	5.8	8.0	(2.2)
Other	1.6	1.3	0.3
Total property, plant and equipment	7.4	9.3	(1.9)
Intangible assets			
Entertainment content and Digital Games development	16.9	17.2	(0.3)
Computer software	0.7	1.0	(0.3)
Brands, licenses and trademark acquisitions	3.3	—	3.3
Total intangible assets	20.9	18.2	2.7
Total capital expenditures	28.3	27.5	0.8
Minority interest and other investments, net of investment distribution income	2.0	2.9	(0.9)
Cash used in investing activities	30.3	30.4	(0.1)

Cash used in investing activities was \$30.3 million for the three months ended June 30, 2023 compared to \$30.4 million primarily as a result of a \$3.3 million indefinite life brand related to an asset acquisition, offset primarily by decreases in capital expenditures related to tooling.

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

(US\$ millions)	Six Months Ended Jun 30		\$ Change
	2023	2022	
Property, plant and equipment			
Tooling	11.5	14.2	(2.7)
Other	2.6	1.8	0.8
Total property, plant and equipment	14.1	16.0	(1.9)
Intangible assets			
Entertainment content and Digital Games development	38.8	25.8	13.0
Computer software	2.2	1.7	0.5
Brands, licenses and trademark acquisitions	3.3	0.5	2.8
Total intangible assets	44.3	28.0	16.3
Total capital expenditures	58.4	44.0	14.4
Business acquisitions	26.5	—	26.5
Minority interest and other investments, net of investment distribution income	2.0	3.9	(1.9)
Proceeds from sale of manufacturing operations	—	(9.2)	9.2
Cash used in investing activities	86.9	38.7	48.2

For the six months ended June 30, 2023, cash used in investing activities was \$86.9 million compared to \$38.7 million. The increase was primarily related to the business acquisitions of 4D Brands International Inc. and Innovation First for a total of \$26.5 million and an asset acquisition from a games and puzzles company for \$3.3 million, compared to \$nil in the prior year. In addition, there were higher investments in Entertainment content and Digital Games development.

Financing Activities as compared to the same period in 2022:

Cash flows used in financing activities were \$12.7 million for the three months ended June 30, 2023 compared to \$3.8 million primarily from the payment of cash dividends and the repurchase of subordinate voting shares under the Company's NCIB program.

For the six months ended June 30, 2023, cash flows used in financing activities were \$27.5 million compared to \$7.7 million primarily from the payment of cash dividends and the repurchase of subordinate voting shares under the Company's NCIB program.

Free Cash Flow¹ as compared to the same period in 2022:

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow¹ to cash from operating activities and cash used in investing activities for the three months ended June 30, 2023 and 2022:

(US\$ millions)	Q2 2023	Q2 2022	\$ Change
Cash flows provided by operating activities	19.1	111.6	(92.5)
Cash flows used in investing activities	(30.3)	(30.4)	0.1
Add:			
Asset acquisition	3.3	—	3.3
Investment distribution income	—	(0.1)	0.1
Minority interest and other investments	2.0	3.0	(1.0)
Free Cash Flow¹	(5.9)	84.1	(90.0)

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

Free Cash Flow¹ was \$(5.9) million for the three months ended June 30, 2023 compared to \$84.1 million, a decrease of \$(90.0) million. Free Cash Flow¹ decreased due to the change in non-cash working capital and lower Operating Income.

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow¹ to cash from operating activities and cash used in investing activities for the six months ended June 30, 2023 as compared to the same period in 2022:

(US\$ millions)	Six Months Ended Jun 30		
	2023	2022	\$ Change
Cash flows provided by operating activities	14.8	48.7	(33.9)
Cash flows used in investing activities	(86.9)	(38.7)	(48.2)
Add:			
Business acquisitions, net of cash acquired	26.5	—	26.5
Asset acquisition	3.3	—	3.3
Investment distribution income	—	(0.1)	0.1
Minority interest and other investments	2.0	4.0	(2.0)
Proceeds from sale of manufacturing operations	—	(9.2)	9.2
Free Cash Flow¹	(40.3)	4.7	(45.0)

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

For the six months ended June 30, 2023, Free Cash Flow¹ was \$(40.3) million compared to \$4.7 million, a decrease of \$45.0 million. Free Cash Flow¹ declined primarily due to lower Operating income, the change in non-cash working capital and higher investment in intangibles assets and property, plant, and equipment.

OUTLOOK

The Company continues to expect 2023 Toy Gross Product Sales¹ to be flat to slightly down compared to 2022.

The Company continues to expect 2023 Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue¹ to be in line with 2022.

The Company continues to expect 2023 Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue¹ to be flat to slightly up compared to 2022.

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.

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

CAPITALIZATION

Share Capital

As at August 2, 2023, there were 103.6 million shares outstanding comprised of 68.7 million multiple voting shares and 34.9 million subordinate voting shares.

As of August 2, 2023, pursuant to grants under the Company's Long-Term Incentive Plan, 1.0 million subordinate voting shares were issuable under outstanding Restricted Stock Units, up to 1.5 million subordinate voting shares were issuable under outstanding Performance Share Units (assuming vesting at a maximum of 200% for units with an outstanding performance period) and 0.5 million subordinate voting shares were issuable under outstanding Share Option grants.

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

On August 2, 2023, the Company's Board of Directors declared a dividend of CA\$0.06 per outstanding subordinate voting share and multiple voting share, payable on October 13, 2023 to shareholders of record at the close of business on September 29, 2023.

Secondary Offering

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

Normal Course Issuer Bid

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

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

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

From time to time, the Company participates in an automatic share purchase plan ("ASPP") with its designated broker in order to facilitate the repurchase of SVS. As at June 30, 2023, 397,700 subordinate voting shares have been repurchased and cancelled at a cost of \$10.5 million. On April 14, 2023, upon the expiry of the

ASPP commitment period, the Company derecognized the remaining obligation for the outstanding repurchase commitment in trade payables and accrued liabilities.

Dividend Reinvestment Plan

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

RELATED PARTY TRANSACTIONS

The Company periodically engages the services of a law firm whose managing partner is also a member of the Company's Board of Directors. For the three and six months ended June 30, 2023, related party transactions were included in administrative expenses in the Condensed consolidated interim statements of earnings and comprehensive income of the Company in the amount of \$0.4 million (2022 - \$0.3 million) and \$0.6 million (2022 - \$0.5 million), respectively. As at June 30, 2023, amounts payable to the director's law firm were \$0.4 million (December 31, 2022 - \$0.4 million).

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

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

NON-GAAP FINANCIAL MEASURES AND RATIOS

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

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

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

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

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

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

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

Non-GAAP Financial Measures

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

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

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

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

Toy Gross Product Sales represent Toy revenues, excluding the impact of Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses Toy Gross Product Sales to provide meaningful comparisons across product category and geographical results to highlight trends in Spin Master's business. For a reconciliation of Toy Gross Product Sales to Revenue, the closest IFRS measure, refer to the "Revenue" section within the "Financial Performance" section for the three and six months ended June 30, 2023, and the "Reconciliation of Non-GAAP Financial Measures" section for the previous eight fiscal quarters.

Revenue, excluding *PAW Patrol: The Movie* Distribution Revenue is calculated as revenue excluding distribution revenue of \$26.0 million related to *PAW Patrol: The Movie* recognized in 2021. Revenue, excluding *PAW Patrol: The 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.

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.

Adjusted EBITDA, excluding *PAW Patrol: The Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding distribution revenue of \$26.0 million related to *PAW Patrol: The Movie* recognized in 2021. Adjusted

EBITDA, excluding *PAW Patrol: The 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.

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.

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

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

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

Non-GAAP Financial Ratios

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

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

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

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

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

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

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

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

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

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

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

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

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

(in US\$ millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Operating Income (Loss)	34.4	(6.1)	(24.0)	187.4	118.2	61.7	39.1	179.5
Share based compensation ¹	4.8	5.4	4.7	4.3	4.5	4.1	4.0	4.1
Foreign exchange loss (gain) ²	11.4	4.3	4.8	(43.5)	(32.3)	9.6	(0.7)	(10.8)
Restructuring and other related costs ³	9.7	3.8	(0.2)	—	4.5	0.6	1.4	0.4
Acquisition related deferred incentive compensation ⁴	2.1	2.1	2.2	2.8	2.6	2.7	2.6	2.7
Impairment of intangible assets ⁵	1.0	1.2	1.1	—	—	—	1.2	—
Impairment of goodwill ⁶	—	1.0	—	—	—	—	1.9	—
Transaction costs ⁷	1.5	0.6	0.2	0.3	0.4	0.1	2.1	0.1
Impairment of property, plant and equipment ⁸	—	0.2	0.9	1.0	—	—	—	—
Legal settlement expense (recovery) ⁹	—	0.2	1.6	—	(0.6)	(1.5)	—	—
Net unrealized (gain) loss on investment ¹⁰	(0.3)	—	0.1	—	(0.1)	—	0.3	—
Net realized loss (gain) on investment, net of distribution income ¹¹	0.1	—	—	—	(0.1)	—	—	(0.2)
Loss on Minority interest and other investments ¹²	—	—	—	—	0.5	—	—	—
Acquisition related contingent consideration ¹³	(2.1)	—	3.1	(0.5)	—	—	3.4	—
Gain on disposal of asset ¹⁴	—	—	—	—	—	—	—	(0.2)
Adjusted Operating Income (Loss)	62.6	12.7	(5.5)	151.8	97.6	77.3	55.3	175.6
Depreciation and amortization	25.8	17.9	17.9	15.8	16.1	18.4	23.0	41.7
Adjusted EBITDA	88.4	30.6	12.4	167.6	113.7	95.7	78.3	217.3
Distribution revenue related to <i>PAW Patrol: The Movie</i> ¹⁵	—	—	—	—	—	—	—	(26.0)
Adjusted EBITDA, excluding <i>PAW Patrol: The Movie</i> Distribution Revenue	88.4	30.6	12.4	167.6	113.7	95.7	78.3	191.3
Distribution revenue related to <i>PAW Patrol: The Movie</i> ¹⁵	—	—	—	—	—	—	—	26.0
Income tax (expense) recovery	(9.6)	0.6	8.5	(45.6)	(27.8)	(14.2)	(9.5)	(41.8)
Interest income (expense)	3.2	3.6	1.7	(0.4)	(2.3)	(1.9)	(3.1)	(2.3)
Depreciation and amortization	(25.8)	(17.9)	(17.9)	(15.8)	(16.1)	(18.4)	(23.0)	(41.7)
Tax effect of normalization adjustments ¹⁶	(7.4)	(4.6)	(4.7)	8.6	4.9	(3.7)	(4.0)	1.1
Adjusted Net Income	48.8	12.3	—	114.4	72.4	57.5	38.7	132.6

¹ Related to non-cash expenses associated with the Company's share option expense and long-term incentive plan.

² Includes foreign exchange losses (gains) generated by the translation and settlement of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and losses (gains) related to the Company's hedging programs.

³ Restructuring expense in the current year relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Prior year amounts relate to changes in personnel.

⁴ Deferred incentive compensation associated with acquisitions.

⁵ Impairment of intangible assets related to content development projects and computer software.

⁶ Impairment of goodwill associated with one CGU.

⁷ Professional fees incurred relating to acquisitions and other transactions.

⁸ Impairment of property plant and equipment related to tooling.

⁹ Legal settlement in the first quarter of 2023 and first, second and fourth quarters of 2022.

¹⁰ Net unrealized (gain) loss related to investment in limited partnership.

¹¹ Net realized loss (gain) related to investment in limited partnership, net of distribution income.

¹² Fair value loss on the Minority interest and other investments classified as FVTPL.

¹³ Expense associated with contingent consideration for acquisitions.

¹⁴ Gain on disposal of intangible asset.

¹⁵ Distribution revenue related to *PAW Patrol: The Movie* recognized in Q3 2021 within Entertainment revenue.

¹⁶ Tax effect of adjustments (Footnotes 1-15). Adjustments are tax effected at the effective tax rate of the given period.

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

(in US\$ millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Cash provided by (used in) operating activities	19.1	(4.3)	(6.8)	207.3	111.6	(62.9)	230.1	85.8
Cash used in investing activities	(30.3)	(56.6)	(28.2)	(42.3)	(30.4)	(8.3)	(19.6)	(22.7)
Add (Deduct):								
Business acquisitions, net of cash acquired ¹	—	26.5	0.4	10.2	—	—	0.7	—
Asset acquisition ²	3.3	—	—	—	—	—	—	—
Investment in limited partnership ³	—	—	—	—	—	—	0.1	0.9
Advance paid for business acquisitions ⁴	—	—	1.0	—	—	—	—	—
Investment distribution income ⁵	—	—	—	—	(0.1)	—	—	(0.6)
Minority interest and other investments ⁶	2.0	—	3.5	—	3.0	1.0	—	2.4
Proceeds from sale of manufacturing operations ⁷	—	—	—	—	—	(9.2)	—	—
Free Cash Flow	(5.9)	(34.4)	(30.1)	175.3	84.1	(79.4)	211.3	65.8

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

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

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

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

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

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

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

The following table presents a reconciliation of Operating Income to Adjusted Operating Income¹, Adjusted EBITDA¹, and Adjusted Net Income¹, and cash from operating activities to Free Cash Flow¹ for the six months ended June 30, 2023 and 2022:

(in US\$ millions)	Six Months Ended Jun 30			
	2023	2022	\$ Change	% Change
Operating Income	28.3	179.9	(151.6)	(84.3)%
Restructuring and other related costs ¹	13.5	5.1	8.4	164.7 %
Foreign exchange loss (gain) ²	15.7	(22.7)	38.4	(169.2)%
Share based compensation ³	10.2	8.6	1.6	18.6 %
Impairment of goodwill ⁴	1.0	—	1.0	n.m.
Impairment of property, plant and equipment ⁵	0.2	—	0.2	n.m.
Impairment of intangible assets ⁶	2.2	—	2.2	n.m.
Legal settlement expense (recovery) ⁷	0.2	(2.1)	2.3	(109.5)%
Acquisition related deferred incentive compensation ⁸	4.2	5.3	(1.1)	(20.8)%
Net unrealized gain on investment ⁹	(0.3)	(0.1)	(0.2)	200.0 %
Net realized loss (gain) on investment ¹⁰	0.1	(0.1)	0.2	(200.0)
Loss on Minority interest and other investments ¹¹	—	0.5	(0.5)	(100.0)
Acquisition related contingent consideration ¹²	(2.1)	—	(2.1)	n.m.
Transaction costs ¹³	2.1	0.5	1.6	320.0 %
Adjusted Operating Income	75.3	174.9	(99.6)	(56.9)%
Depreciation and amortization	43.7	34.5	9.2	26.7 %
Adjusted EBITDA	119.0	209.4	(90.4)	(43.2)%
Income tax expense	(9.0)	(42.0)	33.0	(78.6)%
Interest income (expense)	6.8	(4.2)	11.0	(261.9)%
Depreciation and amortization	(43.7)	(34.5)	(9.2)	26.7 %
Tax effect of adjustments ¹⁴	(12.0)	1.2	(13.2)	(1,100.0)%
Adjusted Net Income	61.1	129.9	(68.8)	(53.0)%
Cash provided by operating activities	14.8	48.7	(33.9)	(69.6)%
Cash used in investing activities	(86.9)	(38.7)	(48.2)	124.5 %
Add:				
Business acquisitions, net of cash acquired	26.5	—	26.5	n.m.
Advance paid for business acquisitions	—	—	—	#DIV/0!
Asset acquisition	3.3	—	3.3	n.m.
Investment distribution income	—	(0.1)	0.1	(100.0)%
Minority interest and other investments	2.0	4.0	(2.0)	(50.0)%
Proceeds from sale of manufacturing operations	—	(9.2)	9.2	(100.0)%
Free Cash Flow	(40.3)	4.7	(45.0)	(957.4)%

¹ Restructuring expense in the current period relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Prior year comparison relates to changes in personnel.

² Includes foreign exchange losses (gains) generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and losses (gains) related to the Company's hedging programs.

³ Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the Company's initial public offering, share option expense and long-term incentive plan.

⁴ Impairment of goodwill associated with one CGU.

⁵ Impairment of property plant and equipment related to tooling.

⁶ Impairment of intangible assets related to Entertainment content and Digital Games development projects and computer software.

⁷ Legal settlement in the first quarter of 2023 and first and second quarters of 2022.

⁸ Deferred incentive compensation associated with acquisitions.

⁹ Net unrealized gain related to investment in limited partnership.

¹⁰ Net realized loss (gain) related to investment in limited partnership.

¹¹ Fair value loss on the Minority interest and other investments classified as FVTPL.

¹² Remuneration recovery associated with contingent consideration for acquisitions.

¹³ Professional fees incurred relating to acquisitions and other transactions.

¹⁴ Tax effect of adjustments (Footnotes 1-13). Adjustments are tax effected at the effective tax rate of the given period.

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

(in US\$ millions)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2023	2023	2022	2022	2022	2022	2021	2021
Toy Gross Product Sales	390.0	216.3	479.2	617.7	484.4	397.5	627.5	681.2
Sales Allowances	(43.7)	(30.0)	(82.5)	(65.3)	(46.8)	(46.6)	(85.5)	(73.4)
Toy revenue	346.3	186.3	396.7	552.4	437.6	350.9	542.0	607.8
Entertainment revenue	33.9	37.6	31.2	37.0	28.4	22.2	28.5	52.9
Digital Games revenue	40.5	47.5	37.9	34.6	40.3	51.1	50.0	53.8
Revenue	420.7	271.4	465.8	624	506.3	424.2	620.5	714.5

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

(in US\$ millions)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2023	2023	2022	2022	2022	2022	2021	2021
Revenue	420.7	271.4	465.8	624.0	506.3	424.2	620.5	714.5
Distribution revenue related to <i>PAW Patrol: The Movie</i>	—	—	—	—	—	—	—	(26.0)
Revenue, excluding <i>PAW Patrol: The Movie</i> Distribution Revenue	420.7	271.4	465.8	624.0	506.3	424.2	620.5	688.5

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

(US\$ millions)	Q2 2023	Q2 2022	Six Months Ended Jun 30,	
			2023	2022
Constant Currency Toy Gross Product Sales	387.7	490.2	607.4	892.8
Impact of foreign exchange	2.3	(5.8)	(1.1)	(10.9)
Toy Gross Product Sales	390.0	484.4	606.3	881.9
Constant Currency Sales Allowances	(43.2)	(47.9)	(74.0)	(95.9)
Impact of foreign exchange	(0.5)	1.1	0.3	2.5
Sales Allowances	(43.7)	(46.8)	(73.7)	(93.4)
Toy revenue	346.3	437.6	532.6	788.5
Constant Currency Entertainment revenue	34.0	29.4	71.6	51.7
Impact of foreign exchange	(0.1)	(1.0)	(0.1)	(1.1)
Entertainment revenue	33.9	28.4	71.5	50.6
Constant Currency Digital Games revenue	41.4	43.0	90.5	95.7
Impact of foreign exchange	(0.9)	(2.7)	(2.5)	(4.3)
Digital Games revenue	40.5	40.3	88.0	91.4
Constant Currency Revenue	419.9	514.7	695.5	944.3
Impact of foreign exchange	0.8	(8.4)	(3.4)	(13.8)
Revenue	420.7	506.3	692.1	930.5

The following tables present the composition of Percentage change in Constant Currency Toy Gross Product Sales, Percentage change in Constant Currency Digital Games Revenue, Percentage change in Constant Currency Entertainment Revenue, and Percentage change in Constant Currency Revenue for the three and six months ended June 30, 2023 and 2022:

(US\$ millions)	Q2 2023	Q2 2022	\$ Change			% Change	
			As reported	Impact of foreign exchange	In Constant Currency	As reported	In Constant Currency
Toy Gross Product Sales	390.0	484.4	(94.4)	(2.3)	(96.7)	(19.5)%	(20.0)%
Sales Allowances	(43.7)	(46.8)	3.1	0.5	3.6	(6.6)%	(7.7)%
Toy revenue	346.3	437.6	(91.3)	(1.8)	(93.1)	(20.9)%	(21.3)%
Entertainment revenue	33.9	28.4	5.5	0.1	5.6	19.4%	19.7 %
Digital Games revenue	40.5	40.3	0.2	0.9	1.1	0.5%	2.7 %
Revenue	420.7	506.3	(85.6)	(0.8)	(86.4)	(16.9)%	(17.1)%

(US\$ millions)	Six Months Ended Jun 30,		\$ Change			% Change	
	2023	2022	As reported	Impact of foreign exchange	In Constant Currency	As reported	In Constant Currency
Toy Gross Product Sales	606.3	881.9	(275.6)	1.1	(274.5)	(31.3)%	(31.1)%
Sales Allowances	(73.7)	(93.4)	19.7	(0.3)	19.4	(21.1)%	(20.8)%
Toy revenue	532.6	788.5	(255.9)	0.8	(255.1)	(32.5)%	(32.4)%
Entertainment revenue	71.5	50.6	20.9	0.1	21.0	41.3%	41.5 %
Digital Games revenue	88.0	91.4	(3.4)	2.5	(0.9)	(3.7)%	(1.0)%
Revenue	692.1	930.5	(238.4)	3.4	(235.0)	(25.6)%	(25.3)%

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this MD&A constitute “forward-looking information” within the meaning of certain securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this MD&A. The words “plans”, “expects”, “projected”, “estimated”, “forecasts”, “anticipates”, “indicative”, “intend”, “guidance”, “outlook”, “potential”, “prospects”, “seek”, “strategy”, “targets” or “believes”, or variations of such words and phrases or statements that certain future conditions, actions, events or results “will”, “may”, “could”, “would”, “should”, “might” or “can”, or negative versions thereof, “be taken”, “occur”, “continue” or “be achieved”, and other similar expressions, identify statements containing forward-looking information. Statements of forward-looking information in this MD&A include, without limitation, statements with respect to: the Company’s outlook for 2023 (see “Outlook”); future growth expectations in 2023 and beyond; the Company’s dividend policy; drivers and trends for such growth and financial performance; the successful execution of its strategies for growth; the integration of and benefits from acquisitions; the Company’s SMV initiative; content and product pipeline; financial position, cash flows, purchases under the NCIB, and financial performance; the creation of long term shareholder value; and future dividends and the operation of the DRIP.

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’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 broader licenses from third parties for major entertainment properties consistent with past practices; the expansion of sales and marketing offices in new markets will increase the sales of products in that territory; the Company will be able to successfully identify and integrate strategic acquisition and minority investment opportunities; the Company will be able to maintain its distribution capabilities; the Company will be able to leverage its global platform to grow sales from acquired brands; the Company will be able to recognize and capitalize on opportunities earlier than its competitors; the Company will be able to continue to build and maintain strong, collaborative relationships; the Company will maintain its status as a preferred collaborator; the culture and business structure of the Company will support its growth; the current business strategies of the Company will continue to be desirable on an international platform; the Company will be able to expand its portfolio of owned branded intellectual property and successfully license it to third parties; use of advanced technology and robotics in the Company’s products will expand; access of entertainment content on mobile platforms will expand; fragmentation of the market will continue to create acquisition opportunities; the Company will be able to maintain its relationships with its employees, suppliers, retailers and license partners; the Company will continue to attract qualified personnel to support its development requirements; the Company’s key personnel will continue to be involved in the Company products and entertainment properties will be launched as scheduled; and the availability of cash for dividends and that the risk factors noted in this MD&A, collectively, do not have a material impact on the Company.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct, and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this MD&A. Such risks and uncertainties include, without limitation, 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.ca). These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

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