

Spin Master Corp.**Fourth Quarter 2025 Results**

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PRESENTATION

Operator

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

At this time all lines are in listen only mode. Following the presentation we will conduct a question-and-answer session for analysts. If at any time during this call you require immediate assistance, please press star zero for the Operator.

This call is being recorded today, Thursday, March 5, 2026.

I would now like to turn the conference over to Tim Foran, VP, Investor Relations. Please go ahead.

Tim Foran — Vice President, Investor Relations, Spin Master Corp.

Thank you.

Good morning, everyone, and thank you for joining our call. With me here today are our CEO, Christina Miller, and our CFO, Jonathan Roiter.

For your convenience, the press release, MD&A, and consolidated financial statements are available on the Investor Relations section of our website at spinmaster.com and on SEDAR+.

Before we begin, please note that remarks on this conference call may contain forward-looking statements about Spin Master's current and future plans, expectations, intentions, results, levels of activity, performance, goals or achievements, and any other future events or developments. Forward-looking statements are based on currently available information and assumptions that Management believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such assumptions will prove to be correct, and many factors could cause actual results to differ materially from those expected or implied by the forward-looking statements. As a result, you are cautioned not to place undue reliance on these forward-looking statements.

For additional information on these assumptions and risk, please consult cautionary statements regarding forward-looking information in our earnings release dated March 5, 2026. Except as may be required by law, Spin Master disclaims any intention to update or revise any forward-looking statements, whether because of new information, future events, or otherwise.

Please note that Spin Master reports in U.S. dollars and all dollar amounts today are expressed in U.S. currency unless otherwise noted. Also, all industry data that we reference related to toys is from Circana, LLC Retail Tracking Service and relates to data from our G11 markets, which are specified in our Q4 2025 supplementary presentation. Unless noted otherwise, all percentage growth rates refer to the periods ending December 31, 2025, relative to the same period in 2024.

In terms of the agenda for the call, Christina will start with a review of the year 2025 and then an overview of our strategy and priorities for 2026 and beyond. Jonathan will then provide a financial review of the year, Q4, and our financial outlook for 2026.

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

Christina Miller — Chief Executive Officer, Spin Master Corp.

Thank you, Tim, and good morning to everyone who is joining us today.

Twenty twenty-five was a challenging year for our U.S. toy sales, as we navigated a difficult tariff macro environment. While we achieved many of our goals, our results did not meet our expectations we set at the beginning of the year. However, I am pleased with how the team responded and made adjustments to set us up for return to profitable growth in 2026.

Most notably, we focused on execution, investing where it matters most, and making clear choices to drive growth. In digital games, we focused our investments on improvements to our two core platforms, Toca Boca World and Piknik, by optimizing the user experience and increasing content releases. We also expanded the reach of our brands through exposure on third-party platforms. This strategy led to more than 20 percent growth in revenues and adjusted operating income in 2025.

In entertainment, expanding the reach of PAW Patrol was our top priority. We introduced new tentpole specials to build towards the summer release of the third PAW Patrol Movie, and we invested in a broader content slate and new IP development. In toys, we increased our POS, driven by consumer demand, across our key categories, products, and licenses. We invested in strengthening our core brands, driving innovation, and expanding into higher growth categories. We have diversified our supply chain, responding to the evolving tariffs.

At the corporate level, we've been investing in material IT improvements to enable efficient, scalable, and future-ready business operations. It has been a significant amount of change, and I'm proud of the team's commitment and resilience.

Now, in terms of specific results for our creative centers. In toys, we started 2025 strong with a solid first quarter, reflecting momentum in our core brands, innovation, and licensed brands. However, driven by economic uncertainty following the introduction of tariffs, the remainder of 2025 was challenging, notably in the U.S. As I noted, our POS was up in 2025. However, our sales to retails were negatively impacted as they reduced their inventory levels. But this does set us up well for 2026.

Melissa & Doug was the most impacted by these shifts, given almost all of the sales entering 2025 were in the U.S., and manufacturing for the brand was primarily in China. As I outlined on our last call, we are executing on a plan to stabilize M&D and return it to growth. We had a solid start to the international expansion, and the team successfully optimized inventory levels for 2026, a year in which we aimed to gain more retail space in the U.S. and in Europe.

In 2025, we deepened our position with partners. Jurassic World Primal Hatch was the top selling in youth electronics. Miss Rachel was the number one absolute growth license in infant, toddler, and preschool category. Monster Jam continued to take market share in vehicles, remaining the number two property in the category.

Quality innovation also helped drive growth in our core brands. HEX BOTS Wall Crawler was the number one item in remote control vehicles. Cool Maker Heishi Bracelet was a top selling new item in arts and crafts in the U.S. and Europe. Our new Melissa & Doug Wow products helped the brand become

number one in craft kits. We remain a preschool leader and gained market share in plush, which moved us up to the number one manufacturer in our infant, toddler, preschool, and plush category. PAW Patrol was number one here.

Looking ahead to 2026, we've had very positive feedback from retailers on our toy line. Our PAW Patrol Movie line is filled with exciting new transformation for preschoolers. Grounded in our mission of purposeful play with Melissa & Doug, we are introducing new pretend play experiences and adding infant and play sets. Primal Hatch won the toy of the year and action figure toy of the year in 2025. Now we are extending the line with new iterations across multiple price points.

We continue to launch new innovation-driven concepts, including Magic Jellycat and Peekimo. GUND had strong POS growth in 2025, and in 2026, we will continue to broaden its appeal with great new licenses and a unique brand promise, Forever Friends, plush that can last a lifetime. We have a portfolio of exciting new products for popular licenses, including Monster Jam, Miss Rachel, Gabby's Dollhouse, as well as K-Pop Demon Hunter, Hello Kitty, and a key item for the upcoming Super Mario Brothers Movie with Hatching Yoshi.

We also recently announced our expansion into strategic trading card games, a category that nearly doubled in size in 2025. We are taking a two-prong approach here. The first is a distribution partnership in North America, Australia, and other markets with Italian Brainrot, a series of collectible trading cards that have successfully tapped into this wonderfully weird viral trend. This fall, we are launching Hellbreak, a fast, competitive, and highly collectible game for an older demographic. This is a

multi-year initiative to build out a one-of-a-kind horror crossover universe that will include characters from across the horror genre from Universal and other major studios.

In summary, our focus in toy going forward is to expand our leadership position in our major categories, create new categories from white space through our innovation, and enter and compete in high-growth categories where we have the right to win with compelling product.

Moving to entertainment, we have an exciting year ahead with the global release of the PAW Patrol Movie in August, and we are investing ahead of that. We continue to build the PAW Patrol Universe with new content and expanded distribution to ensure the pups remain a global preschool leader with the next generation of children and their parents. We've been reaching new audiences by adding previous seasons and movies on Netflix, which have driven strong engagement.

In 2025, hours viewed on Netflix of PAW Patrol increased by 10 percent to almost a billion hours, a testament to the relevance of the brand. In 2026, we have new seasons of PAW Patrol and Rubble and Crew being released on Nickelodeon and Paramount+ and other global channels with future seasons in development. In addition to PAW, we are continuing to create new IP, including the development of our animated four-quadrant movie. The release of the new season of Unicorn Academy also begins globally on Netflix this month.

In digital games, our focus on Toca Boca and Sago Mini Piknik subscription bundle is paying off. We have created value in the Toca Boca community by increasing the frequency of free and paid features, content releases, and collabs, including Universal's Wicked for Good and Hello Kitty, enhanced our Piknik subscription offering, including through the addition of Crayon Club, and extended the reach of our brands

by licensing to third-party platforms. In 2026, we plan to put the Toca Boca user experience first by continuing to invest in improving the tech platform to support faster production, more content, and live service. We will be bringing this playful world to fans with MINISO this summer, and we have a pipeline of other partnerships coming.

With Piknik, our strategy is to drive growth in subscribers and increase retention by showcasing the value proposition of the deep bundle of titles included. As part of this, we have a content pipeline to fuel subscriptions, including the first quarter release of the new reading app, Superfonik. We also have a new UX launch planned in coming months that will make it easier for parents to access the full Piknik offering within their subscription, a key driver of higher retention. We are continuing to expand our partnerships. In the first quarter, we launched Jinja's Garden, Sago Mini's first-ever immersive 3D game on Apple Arcade.

Finally, the integration of Lylli is going well, and it is an example of how we can drive value across our creative centers. We are utilizing Lylli as a platform to make reading part of our brands, including PAW Patrol and Melissa & Doug.

In summary, we have clear priorities for 2026, as I outlined in detail on our last call. The first is capturing the movie moment for PAW Patrol across all creative centers. The second is fully realizing the potential of Toca Boca digitally, in the physical world, and through content. The third is returning Melissa & Doug to growth. Beyond 2026, we are setting the stage to reignite a new growth cycle by investing in innovation in our toy portfolio and digital platforms, expanding into high-growth categories, and

accelerating collaboration across our creative centers to unlock the full potential of our portfolio and brands.

With that, I turn it over to Jonathan.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Thank you, Christina, and good morning, everyone.

As Christina noted, the 8 percent decline in our toy growth product sales in 2025 was driven by an approximate 12 percent reduction in retailers' inventory levels. Because we don't expect significant more reductions, we believe we have a healthy setup going into 2026.

We have successfully reduced our own inventory levels in the year by a valid 20 percent due to our sell-through efforts, with Melissa & Doug successfully reducing its aged inventory, as well as a reduction within Spin Master of licensed products that we are exiting. Our improved days' inventory outstanding, combined with improved payable management, help us decrease our consolidated cash conversion cycle by seven days.

During the year, we generated \$308 million in operating cash flow, despite the headwinds in the U.S., illustrating the cash-generating power within our model. CapEx was approximately \$185 million, which included certain projects that I outlined on our third call. Specifically, approximately \$24 million related to our IT investments to upgrade our enterprise software across our global organization, and approximately \$33 million, which was attributed to our new LE office and showroom, of which about \$15

million was funded by our landlord. After CapEx and lease payments, our free cash generated was used to purchase Lylli in the fourth quarter.

We also returned about \$80 million of capital to shareholders through our quarterly dividends, and by maximizing our share buyback program for the second year in a row. We have now reduced our TSX listed shares outstanding by approximately 7 percent over the past three years through our buyback programs. Net debt, excluding lease liabilities, was held flat year-over-year as we prioritized return of capital. We ended the year with one turn of net leverage, including leases.

Now digging into our fourth quarter results by segment. Toy GPS declined by 5 percent. This was a significant improvement over the 20 percent decline we experienced in the third quarter, which was driven by the delayed timing of retail orders as many had moved from direct import to domestic replenishment. In the fourth quarter, we lapped much of that timing issue as domestic replenishment sales surged in December by 50 percent, making up for some of the reduced import sales that we experienced in prior months. A special thank you to our sales, supply chain management, and fulfillment teams for navigating us through such an abrupt tariff-driven change in retail order patterns in 2025.

In the fourth quarter, we supported our retail partners and invested in sell-through to optimize our inventory, which resulted in toy revenues and gross profits declining faster than GPS. The quantum, however, was not unusual, and sales allowance percentage and gross margins were in line with levels we have seen in the fourth quarters of 2024 and 2023. As much of our promotional efforts in toy were above gross profit, we reduced our marketing expense in OpEx, which helped protect EBITDA.

As we noted on our last call, Melissa & Doug was negatively impacted in 2025 due to the tariff-driven environment and increased competition. While we were executing our plan to stabilize and return the brand to growth, the change in dynamics led us to take a non-cash goodwill impairment charge.

Turning to entertainment, revenues increased 3 percent driven by higher distribution revenues stemming from deliveries of content. However, adjusted operating income declined due to a \$12 million increase in amortization of content development within cost of sales, reflecting the inferior dilutive impact from content delivery. Within digital games, revenues increased 16 percent driven by increased partnership revenues, increased engagement and monetization on Toca Boca World, and improved retention and higher ARPU in Piknik. The revenue increase drove a 24 percent increase in adjusted operating income.

Now, turning to our outlook for 2026. We are guiding for a stable to low single-digit growth in revenues and a mid to upper single-digit growth in Adjusted EBITDA. The top end of our range reflects growth drivers with a downside reflecting conservatism due to the uncertain economy and its impact on the U.S. consumer demand. In terms of drivers, we expect healthy growth in entertainment due to the release of the PAW Patrol Movie and more modest growth in digital games as it faces a challenging comp in 2025 when it grew by more than 20 percent and benefited from significant partnership revenues.

As it relates to toy, we expect drivers to include the third PAW Patrol Movie, M&D improvements, continued innovation through the portfolio, exciting new licenses, as well as the potential to recast for some shipping revenues that we lost in the prior year. Headwinds to growth will be the lapping movie years for DreamWorks Dragon and Gabby's Dollhouse, as well as exiting certain licenses, notably DC.

In terms of top-line cadence throughout the year, we anticipate year-over-year results in entertainment to be relatively stable in the first half with growth in the second half following the release of the PAW Patrol Movie. This would be a combination of revenues of approximately \$20 million followed by additional distribution revenues thereafter. Within digital games, we're aiming for modest growth in each quarter with rates increasing in the second half partially driven by the launch of our new PAW Patrol digital game and improvements we are making to our platforms.

In toy, we anticipate an approximately 30/70 split in toy revenues between the first and second half of the year with the first quarter anticipated to be in the low double digits and the second quarter by teens. Year-over-year results through the quarters in toy are anticipated to be volatile due to the significant shift in retail order patterns last year. Retailers pulled forward orders in the first quarter last year in anticipation of the introduction of tires, which makes it a challenging comp.

Therefore, in the first quarter, we are expecting a significant year-over-year decline in toy, which in turn is anticipated to result in a double-digit decrease on a consolidated basis. For the same reason, of course, we should have easier comps in toy in the following quarters, notably in the third quarter.

In terms of gross profit, I'll note that the current geopolitical climate may result in certain higher costs of sales, such as freight. It is too soon to quantify these. We do expect approximately \$22 million of increase in depreciation amortization within costs of sales, primarily related to amortization of entertainment content development. In the first quarter specifically, we expect a year-over-year decline in gross margin due to a \$12 million increase in entertainment amortization.

In terms of operating expenses, we anticipate efficiencies in certain areas to help us pay for increased technology investment. The increased Adjusted EBITDA margin implicit in our guidance is consistent with the 50 to 100 basis points general target I outlined on previous calls.

As it relates to Adjusted EBITDA cadence, we expect seasonality to be similar to last year and 2024, with the second half representing more than 85 percent of our full-year results. In the first quarter specifically, we anticipate negligible EBITDA due to the anticipated decrease in gross profit. Below Adjusted EBITDA, we are anticipating depreciation amortization in 2026 to be approximately \$160 million with an increase driven by entertainment, as I previously noted. Finance costs are anticipated to be similar to 2025.

Now turning to our cash flows, lease payments are anticipated to be just under \$40 million annually, and our CapEx is anticipated to be approximately \$150 million in 2026. Now about \$25 million of this relates to investments we are making to upgrade our enterprise software, which we expect to launch by the end of the year. This includes leveraging the latest technology to improve and automate our data quality and processes and facilitate tighter integration within our creative centers.

The remainder is primarily investments in three areas. First, new entertainment content, of which 70 percent is earmarked to continue to expand the PAW Patrol Universe, where we generate strong cash-on-cash returns, with much of the remainder on our new animated original IP film. Secondly, tooling within toy. Capital intensity in toy continues to remain in the low single digits. Thirdly, digital game projects. Specifically, the majority will be set in Toca Boca, with a focus on driving growth through next-generation game development, additional content, features, and platform upgrades. The remainder will

be spent on driving retention in Piknik by investing in new game launches, content expansion, and live service development. We'll be completing our new PAW Patrol digital game.

In terms of capital allocation, we remain focused on first investing and driving growth, both in OpEx and CapEx. With the free cash we generate after CapEx and lease payments, we expect to continue to look for M&A to further our strategies. We are maintaining our dividend. We are also renewing our share buyback program. In summary, we'll look to maintain a balanced capital allocation approach with prudently good conservative leverage.

With that, Operator, please open the line for questions.

Q & A

Operator

Thank you, ladies and gentlemen. If you'd like to ask a question, please press star, one on your telephone keypad. If you'd like to withdraw your question, press star, two. One moment, please, for your first question.

Your first question comes from Adam Shine from National Bank Financial. Please go ahead.

Adam Shine — Analyst, National Bank Financial

Thanks a lot. Good morning. Of course, thanks for the outlook and a lot of details, Jonathan. If I could go back, one item that I didn't hear was on the sales allowance front. Maybe you can talk a little bit

more in terms of the nature of promotional activity that you think might transpire during the course of this year, let alone perhaps filling Q1.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Good morning, Adam. Thank you for the question. I'm glad that you appreciated the details on the guidance, return to guidance. In terms of sales allowances, we finished this year. I didn't, in sales allowance in Q4, I point out that those are similar to levels that we had in '23/'24. Really, when you look at the overall year of '25, it's not necessarily an anomaly. Heading into 2026, I think we're expecting similar levels. We're really early in the year. Sales allowances really are a determinant of your products. When we looked, coming out of New York Toy Fair, there's a lot of excitement around our core new products. Ultimately, sales allowances, we are expecting it to be similar to 2025.

Adam Shine — Analyst, National Bank Financial

Thanks for that. As you reflect on some of the latest dynamics around the tariffs, I think we were moving from 10 percent into 15 percent. Perhaps other changes are afoot. How do you read the landscape? Is this another year where you effectively pass pricing on to the consumer to wash the tariff impact? One part to the question, and then, secondarily, are there other benefits to be extracted by virtue of some of the supply chain management issues you pursued last year?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yeah, thanks, Adam. Tariffs, it certainly is a dynamic environment. You're right, we're currently at 10 percent. I think there's some expectation from the Treasury Secretary that next week we'll move up to

15 percent. Bear in mind, those are lower than the previous years. If we just step backward for a moment, in 2025, tariffs themselves were not, the actual dollars that we paid were not material. The net dollars that we paid versus price was not material. Really, tariffs, the element that was material was how the consumer ended up showing up and how the retailer bought throughout the year.

We don't expect movement from 10 to 15 or thereabouts to have a material impact on the net dollars going out. Obviously, the bigger question mark is, does that impact the consumer and does that impact the retailers? So far, as we began Q1 and two months in, we have not seen changes in the retailer purchasing behaviors with the change in the tariff environment.

Adam Shine — Analyst, National Bank Financial

Thanks for that. Just one last one, and I'll queue up again. Just to confirm and clarify, with respect to the PAW Patrol Movie expected distribution, I think you said \$20 million. Is that something that hits the Q3 or is that \$20 million figure a figure for all of 2026?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

No. When we released the movie, there's contractual responsibilities, and of those, we received \$20 million, and that'll be a Q3. How the movie performs, then there's additional funds that we would receive.

Adam Shine — Analyst, National Bank Financial

Perfect. As per the last two movies.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yeah.

Adam Shine — Analyst, National Bank Financial

Okay. Thanks for that. Appreciate it.

Operator

Your next question comes from Kylie Cohu from Jefferies. Please go ahead.

Kylie Cohu — Analyst Jefferies

Hey, thanks so much for taking my questions. First, I'm just thinking about the industry as a whole. What are you expecting from preschool, infant, and toddler category, and then also just like the broader toy industry as a whole for 2026 in terms of sales growth?

Christina Miller — Chief Executive Officer, Spin Master Corp.

Hey, Kylie. How are you this morning? I think that what we—just looking at the category overall for us, we see that the consumer sentiment, towards the end of last year, was a little bit softer, but improved by the time we got into December slightly. Toys continue to, you know, people still continue to shop for toys, even if it's on a promotional basis, right, that they're looking for discounts or otherwise. Our approach going forward and even towards the end of last year is to make sure that we have a balanced mix on pricing that across all of our brands that we're bringing value to the consumer.

More than 50 percent of our products are still priced below \$19.99. I think we have that kind of mix between driving innovation, helping grow that category, and then also making sure that we have price points that work. On top of that, I would add that we have some of the stronger brands in the space as well. Whether it's, you know, PAW Patrol being in a movie year or continued growth in Miss Rachel or Gabby's Dollhouse had a good year coming off the movie. I think when we move into next year, it's about what else can we bring into that category, given our strength in that category and creating products for that category. Then how do we continue to drive the products that we have and brands we have.

Kylie Cohu — Analyst Jefferies

Super helpful colour. Then I guess last one for me is just kind of what needs to go right in order for the results to end up at the high end of your EBITDA guide.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Thanks, Kylie. If we go back to kind of our prepared comments, there are really three focuses that we have, right? The first is capture the PAW Movie, the PAW Movie moment. Ultimately not just success at the theater, but also the toys that we have launched that are associated with the movie. We've had really strong response coming out of New York. We're really feeling bullish and positive about those products.

The second is realizing the full moment of Toca and fully realizing the Toca's potential. That is a multi-year journey. We're going to start seeing over the course of this year, increased content, increased

features, increased Toca being outside of the digital realm. That is a multi-year journey and executing on that will certainly help on the high end.

Then lastly, we talked about for a number of quarters now returning M&D to growth, and that is a focus of the team. We brought back innovation to the pretend play category. There's some new areas that we're launching products around. The feedback that we received, again, from the Toy Fair was positive. Ultimately those are the three elements that would bring us to the top end, plus the consumer showing up, and plus stability with how retailers are ordering throughout the year.

Kylie Cohu — Analyst Jefferies

Great. Thank you. I'll pass it back.

Operator

Your next question comes from Gerrick Johnson from Seaport Research Partners. Please go ahead.

Gerrick Johnson — Analyst, Seaport Research Partners

Good morning. Thank you. Given a Supreme Court tariff ruling, has that changed conversations with dealers and just in general, how are they wanting to be fulfilled in the first half? Are they shifting back to FOB or still pretty much domestic fulfillment?

Christina Miller — Chief Executive Officer, Spin Master Corp.

It's still too early to tell, right? You know, the changes are coming daily at this point, so being able to react to them before the next one comes, I think people are just taking a wait-and-see approach at the moment, so we're not seeing any drastic changes.

Gerrick Johnson — Analyst, Seaport Research Partners

Okay. How are they wanting to be fulfilled? You know, last year we talked a lot about that shift from FOB to domestic, and have we shifted back to normal shipping patterns or are we still in that domestic preferred over FOB?

Christina Miller — Chief Executive Officer, Spin Master Corp.

Domestic continues to be about at the same rate as it was. We don't see a big swing back immediately.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yeah, I think it will take a number of years for that change, and if anything, there may be more domestic than FOB over the course of the year.

Gerrick Johnson — Analyst, Seaport Research Partners

Okay. Then on channel inventory, I heard a couple of numbers. Was it down 12 percent, down 20 percent? What was the channel inventory number?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Sure. The channel is down 12 percent, so that certainly positioned us well kicking off the year, and we were down 20 percent year-over-year, and so from a working capital perspective. Again, also positioning us well for next year with the quality of our inventory on hand.

Gerrick Johnson — Analyst, Seaport Research Partners

Okay. Is there still any excess out there in the channel that needs to be cleared or inhibiting first quarter, first half shipments?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yeah, I think there's always going to be some level of excess. I would just refer back to we're starting the year in a great position, both from our own inventory position, down 20, and the market down, other retailers down 12 percent. That is a strong position to start from.

Gerrick Johnson — Analyst, Seaport Research Partners

Okay. Great. Thank you, Jon.

Operator

Your next question comes from Jamie Katz from Morningstar. Please go ahead.

Jaime Katz — Analyst, Morningstar

Hey, good morning. I hope you guys can give us some insight. Maybe I missed it in the prepared remarks, but do you have any insight to the POS momentum coming out of the quarter? We're in March already, so hoping to get a little bit more recent visibility.

Christina Miller — Chief Executive Officer, Spin Master Corp.

Good morning, Jaime. I mean, I think right now at this moment it's slightly up is what we're seeing for the POS getting into the first eight weeks of the year.

Jamie Katz — Analyst, Morningstar

Okay. Then we haven't really talked too much about this trading card market, but for horror specifically, I'm not very in the weeds in this space. I think there are some other brands in this space, so can you talk a little bit about what the total addressable market there is for you guys to tap into? How you expect the rollout of that to go, and sort of when you expect it to start contributing to the P&L? Thanks.

Christina Miller — Chief Executive Officer, Spin Master Corp.

Sure. A couple of pieces there. I think in the prepared remarks you would have heard us talk about a two-pronged approach, right? We have a distribution partnership with Italian Brainrot, which is a trading card brand out of Italy, and that will be the first one to go to market, and that will be more of a mass trading card play. Then when you look at Hellbreak, which is the strategic trading card game that we're putting into the market later this year. That's a multi-year growth initiative, so it will start its specialty and really look to permeate that channel and grow with the fan base, that older demo.

Right now, there's a big show going on in the trade show market called GAMA in Kentucky, and that's like one of the first legs of really revealing it to the specialty channel and to building fandom for the game. The game is there this week. It's doing really, really well. That's that first leg. I think that really at this point it will be about, we will not see huge growth from this category in 2026. It will start to grow more for us in '27 and '28.

Jamie Katz — Analyst, Morningstar

Super interesting. Thanks.

Operator

Your next question comes from Brian Morrison from TD Cowen. Please go ahead.

Brian Morrison — Analyst, TD Cowen

Yes. Good morning, Christina. Maybe just, you mentioned the key to returning M&D to growth. In New York, we saw the expanded product line beyond wood, the expanded addressable market and your international expansion opportunity. But what's the strategy to gain market share following the tariff impact last year? Is it product differentiation? Will you have to use price? How do we gain more market share back?

Christina Miller — Chief Executive Officer, Spin Master Corp.

Good morning, Brian. There's a couple of paths to returning M&D to growth, right? It's never going to be one thing. I think it is regaining retail space, right, across the channels, doing that through both

category expansion into things like infant, as well as continuing to grow our space for WOW products and driving some of the innovation you saw. Also really digging into the pricing of our products as well and really making sure that the value is there for both our consumer and our retail partners.

Then last but not least, of course, is international expansion. You saw us track towards model at the end of last year with growth into our international channels and growing further there will help us really expand the brand. Then beyond that, I think anyone that was able to spend time with us at Toy Fair will see the way that there is definitely other adjacencies that M&D, that Melissa & Doug can grow into from an experiential standpoint and really looking at seeing how else we can make sure that the people that love Melissa & Doug can spend time with Melissa & Doug beyond just having a toy in their hand.

Brian Morrison — Analyst, TD Cowen

Okay. Then maybe, Jonathan, can you clarify me? Obviously growing Toca digital content is a priority next year or this year, pardon me. Maybe just reconcile the monthly active users in Slide 19. It appears that the ending MAU is down, but the average MAU is up. Can you just clarify how that works?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Sure, Brian. I mean, the simple answer is the two numbers are different. One is an ending number and the second is an average for the period. What you see is the trend, I guess, ultimately in terms of what is transpiring. When we look at Toca, they're really, you really do have to look at it across the three core metrics, monthly active users, the conversion of those users, and then ultimately what people are paying.

We are not managing just for one of those metrics. We are managing across all three. We're comfortable to have some variability in our MAU, in our monthly active users, as we try different ways to increase our conversion and increase what we call our ARPU. We're very comfortable with the trend that you're seeing there. We're really trying to focus on all three of the variables at play.

Brian Morrison — Analyst, TD Cowen

Is it safe to say it's a bigger basket from a more concentrated base of users?

Christina Miller — Chief Executive Officer, Spin Master Corp.

Yeah, Brian, I think what you're saying is that it's both, right? Same thing that Jonathan was saying about the difference with MAUs. It is there. Yes, we're trying to grow the top of the funnel, and you see lots of releases, content releases, both free and premium. We are converting at the bottom of the funnel well. I think that's one of the differences for Toca Boca versus competitors, right, is that the markets that we're going to and our ability to convert at the bottom of the funnel. It's a little bit of both.

Brian Morrison — Analyst, TD Cowen

Okay, thank you.

Operator

Your next question comes from Martin Landry from Stifel. Please go ahead.

Martin Landry — Analyst, Stifel

Hi, good morning. Thank you for all the colour so far. Much appreciated. Jonathan, I just want to talk about the impairment charge you took on Melissa & Doug and it's pretty large. I just want to understand when you did your cash flow analysis to write down the goodwill, was the write-down driven by a lower revenue profile or is more from a lower profitability profile?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yeah, I mean, thank you, Martin. The math on any time you're looking at your CGUs and ultimately the goodwill associated with it is driven first by your top line. Then how does that translate into cash? Clearly, you know, in 2025, we talked about it a number of times, M&D was a brand that was disproportionately impacted by the tariff environment as the vast, vast majority of its production was coming out of China and the vast majority of sales were to the U.S. It had a disproportionate impact. When you take that into consideration, you rerun your model, ultimately the baseline of where you're starting from is lower and that's what drives the impairment.

What's important is what we're doing going forward. I think Christina walked through the growth drivers quite clearly. We're really excited to see a path to having more doors and more shelf space in 2026 than we had in 2025. Couple that with the innovation, the right pricing, and continued international expansion. You know, we think that our aspiration and our goal to bring M&D back to growth, we're well underway on that.

Martin Landry — Analyst, Stifel

Okay. Switching gears, I mean, in the past there were lots of discussions and efforts and resources dedicated to the development of IP internally, like Unicorn Academy, for instance. But we don't hear you talk about, or maybe I've missed it, but is this a strategy that you're still pushing to develop IP internally and what's the pipeline of the IP developed internally, if there's any?

Christina Miller — Chief Executive Officer, Spin Master Corp.

Thanks, Martin. I think that we did discuss it a little bit in the prepared remarks around, one, obviously we are continuing to invest in PAW Patrol, and we talk a lot about that. I think that that's definitely one of the things you're noticing. Then other than that, we do have a pipeline of content, whether it's the four-quadrant movie that's in development, whether it's re-looking at Bakugan, which is an internal property, talking about how we're going to develop Toca Boca.

Again, when we look at driving and unlocking value for our portfolio, it's about getting it to its full potential. I think one of the things you're noticing is the pipeline is filled with some of our very core brands that we have the ability to pull through across all of our creative centers. Then we always have a robust development slate where we're looking at what are the new content we can create. As we get further along with that, we will obviously share it.

Martin Landry — Analyst, Stifel

Okay, so is it fair to say that there's more focus on your core brand than trying to develop new stuff at the moment?

Christina Miller — Chief Executive Officer, Spin Master Corp.

No, I think that, again, I'm going to take a chance of just sort of repeating myself. But I think that obviously the core brands inside our portfolio are the brands that we are giving attention to in resources and unlocking their potential. It's not binary. It's not just doing that. I think the development brands are just that. The same way we're developing over 500 toy products, that we will bring far less of those to market.

We have a strong development pipeline. We're constantly looking at what else we can bring to market and when. But as you're probably aware, it's a pretty long process between when we start to develop the property and when we bring it to market. No less development. Currently what's closer in sight is the development or the shows that we're talking about.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yeah, and there's a healthy—30 percent of our entertainment CapEx budget is outside of PAW. There's a healthy amount of dollars that are being placed on those items that Christina just walked through.

Christina Miller — Chief Executive Officer, Spin Master Corp.

Yeah, we will always be a company that's in the act of creation, right? We're always looking at building and adding to our portfolio and developing franchises across the business, whether they come from digital or they come from toy or they come immediately from content. I think it's about looking left and right around us to bring what can we pull into content and then where are there those new content ideas. We are, in fact, doing both. We are committed to doing both.

Martin Landry — Analyst, Stifel

Okay. Thank you and best of luck. Thank you. Thank you.

Operator

Your next question comes from Luke Hannan from Canaccord. Please go ahead.

Luke Hannan — Analyst, Canaccord

Thank you. Good morning. I wanted to follow up on the PAW Movie contribution. I think I heard you correctly. It should be \$20 million. That's going to be recognized in Q3. Is the accounting for that similar as in the past where it will show up 100 percent of that revenue shows up in the EBITDA line and then there's the associated charges against that? Then if so, so just a clarification, that \$20 million then is included in the Adjusted EBITDA guidance. Then if we break that out, it's more like flat-to-up, low single digits on the year rather than mid-to-high single digits.

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Sorry, I missed the second part. But on the first part, I think I was muffled when I mentioned it before. Similar to historical practices, when we release content, if we're within a partnership, there's contractual—we've met some contractual responsibilities, and therefore we can tell you the number that we're going to receive. We're going to receive \$20 million of revenue. There will be amortization associated with that against that \$20 million as released content. I didn't get the second part of your question. I apologize.

Luke Hannan — Analyst, Canaccord

Maybe I'll just clarify that. In the past, like in 2023, for example, the number was in and around \$15 million. That showed up—100 percent of that revenue showed up in the Adjusted EBITDA line as well. In effect, it's almost like the margin on Adjusted EBITDA was a little bit higher relative to where it should be because you have the amortization showing up below the EBITDA line. I guess I'm just trying to think of if we're thinking about it on a like-for-like basis and we're thinking of the margin expansion in '26 versus '25, should we be then excluding that \$20 million of contribution from 2026 EBITDA?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Yeah. I mean, I thought I addressed this. Sorry. It's no different than in the past. The \$20 million, there's amortization associated with it, so therefore EBITDA, you do see it flow through the EBITDA. Where you won't see it flow through fully is to the EBIT.

Luke Hannan — Analyst, Canaccord

Yeah, got it. Okay. Thanks. Appreciate that. Then just as a follow-up, you talked about there's certain dynamics, obviously geopolitical dynamics going on right now that make it very difficult to figure out what the impact is of higher freight costs on what your COGS is going to be going forward. Can you just give us an idea of what it is that you're seeing as far as changes in freight rates currently?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

I mean, currently none. But, I mean, we're four days into the spike in oil, and so ultimately, I think it will come down to how high does oil go and how long does it stay at those rates. We're four days into the increase in prices, so right now there's what I'll say no material impact. Of course, if this continues for an extended period of time, we will start seeing that, and there's probably a three- or four-month lag in terms of our freight costs and then ultimately hitting our P&L through our COGS.

Luke Hannan — Analyst, Canaccord

Got it. Okay, thank you.

Operator

Your next question comes from Drew McReynolds from RBC. Please go ahead.

Drew McReynolds — Analyst, RBC

Yeah, thanks very much. Good morning to you for me. First on the digital gains side, just in terms of profitability, obviously we saw a little bit of a margin lift here in Q4 on pretty good performance. I think margin's stable overall in 2025. Just as you continue to grow the top line here and invest in the platforms, how do you see margins unfolding going forward? Then second question on the M&A environment, just maybe for you, Jonathan, just what areas of focus at a 30,000-foot view are you looking at the moment?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Thank you. Sure, so I'll start on the first one on the margins on digital. There's really, when you think about digital, there's three revenue streams ultimately that are in that business. There's the Toca

stream, the Piknik stream, and the partnership stream. Partnerships are very accretive, and so that's why you sometimes see some variability, upward variability on our margins is when we recognize partnership revenue. Some deals we get to recognize all at once. Some deals are over, of course, a number of years, and if they are material we do on the call, I like to point out the accounting treatment associated with it.

Then when you look at Toca and Piknik, they're both in very different stages of their journey. Toca has hit what I'll call scale, and so it's a very accretive business, and our focus is to continue to manage all three of those metrics that I talked about before and further bring Toca to life outside of the digital realm. Piknik, we're scaling that business, and so there's certainly more investments associated with the Piknik business, and so the accretion around Piknik is smaller than you would see at Toca.

Those are the three variables at play when you look at the digital business. Then in terms of M&A, we have the same focus as the previous Management team around the importance of M&A to our growth platform. Areas that we continue to be looking at are areas that can boost up our core competencies within toy, areas that we're not necessarily playing in, and our high growth in toy regions that we can benefit from as well. Then we continue to be actively looking, and you saw our last acquisition was in the digital space, in the digital realm where we can add more content and more capabilities.

Drew McReynolds — Analyst, RBC

Okay. That's helpful. Thanks, Jonathan.

Operator

Ladies and gentlemen, as a reminder, if you'd like to ask a question, please press star, one on your telephone keypad.

Your next question comes from Ty Collin from CIBC. Please go ahead.

Ty Collin — Analyst, CIBC

Hey, good morning. Thanks for taking my question. I just want to circle back to the discussion around margins. The 2026 guidance implies probably somewhere between 50 bps and 100 bps of EBITDA margin improvement. As discussed in a previous question, it sounds like a fair bit of that's going to be coming from entertainment and digital rather than the toy business. I guess my question is just what's it going to take to kind of get core toy profitability back to 2024 levels? What does that pathway look like? Are there any other sort of self-help levers available to the Company to get there?

Jonathan Roiter — Chief Financial Officer, Spin Master Corp.

Thanks, Ty. It's a great question. The challenge when you have kind of these high-level numbers, you don't see all the different pluses and minuses underneath each. What I can tell you is that there is accretion and there is margin improvement within the toy business. It's the biggest part of our business, right? It's 80-ish percent of our overall business. We are, and we've talked about in the past, ensuring that we are setting up this Company to have a new growth cycle and a sustained growth cycle and a profitable growth cycle.

There are investments that we're making on the increased margin because we are getting, from a portfolio approach, we are getting accretion on entertainment. This is a year where we could certainly put

dollars back to work to set ourselves up for success '27, '28, and '29 on that journey of continuing to grow the top line and expanding our margins. I've talked in the past that I see this business being able to consistently add 50 to 100 basis points a year for a number of years, and we're doing it. We're making sure we can do it this year and we're going to make sure we can keep on doing it going forward.

Operator

There are no further questions at this time. I will turn the call back over to Christina for closing remarks.

Christina Miller — Chief Executive Officer, Spin Master Corp.

Thank you all for being with us today. We look forward to talking to you on our Q1 call on April 30.

Operator

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