

**Spin Master Corp.**

**Investor Conference Call**

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## **CORPORATE PARTICIPANTS**

**Sophia Bisoukis**

*Spin Master Corp. — Vice President Investor Relations*

**Max Rangel**

*Spin Master Corp. — Global President and Chief Executive Officer*

**Mark Segal**

*Spin Master Corp. — Chief Financial Officer*

**Ronnen Harary**

*Spin Master Corp. — Chair and Co-founder*

## **CONFERENCE CALL PARTICIPANTS**

**Luke Hannan**

*Canaccord Genuity — Analyst*

**Adam Shine**

*National Bank Financial — Analyst*

**Martin Landry**

*Stifel — Analyst*

**Jamie Katz**

*Morningstar — Analyst*

**Andrew Lopez**

*TD — Analyst*

**David McFadgen**

*Cormark — Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the Spin Master Corp. Investor Conference Call.

At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require immediate assistance, please press \*, 0 for the Operator.

This call is being recorded on Wednesday, October 11, 2023.

I would now like to turn the conference over to Ms. Sophia Bisoukis. Please go ahead, ma'am.

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

Thank you, and good morning. Welcome to Spin Master's conference call regarding our acquisition of Melissa & Doug.

We appreciate you joining us on such short notice.

On the call today we have Max Rangel, Spin Master's Global President and CEO; Mark Siegel, Spin Master's Chief Financial Officer; and Ronnen Harary, Chair and Co-founder, who will be joining us for the Q&A.

For your convenience, the press release issued earlier today and related presentation are available on the Investor Relations section of our website, [spinmaster.com](https://spinmaster.com), and the press release is available under our profile under SEDAR.

Before we begin, please note that remarks on this conference call, including responses to any questions, may include statements that contain forward-looking information about Spin Master's current

and future plans; expectations; intentions; results; performance, goals, or achievements; and any other future events or developments, including statements concerning the expected performance of Spin Master and the business to be acquired.

Forward-looking statements are based on information currently available to management and on factors and assumptions that management believes are appropriate and are reasonable for the circumstances.

Financial outlook included in such forward-looking statements is intended to provide investors with further information about the expected performance of Spin Master and the business to be acquired, and listeners are cautioned that the information may not be appropriate for other purposes.

There can be no assurance that any conclusions, forecasts, or projections contained in forward-looking statements and our underlying assumptions will prove to be correct. Many factors could cause the actual results to differ materially from those expected or implied by the forward-looking statements.

As a result, Spin Master cannot guarantee that any forward-looking statements will materialize, and you are cautioned not to place undue reliance on these forward-looking statements.

For additional info on these assumptions and risks, please consult our cautionary statements regarding forward-looking information in the press release issued earlier today and in the related presentation.

Except as required by law, Spin Master has no 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 US dollars and all dollar amounts to be expressed today are in US currency, unless otherwise noted.

As we mentioned, on the call today Max will begin with an overview of both companies and spend time on what the combined entity will look like in the future, Mark will then review the transaction details with you, and after that we will open up the call for Q&A.

Let me now pass the call over to Max.

**Max Rangel** — Global President and Chief Executive Officer, Spin Master Corp.

Thanks, Sophia.

As you would have seen in this morning's press release, we are thrilled to announce our plans to acquire Melissa & Doug, a beloved brand of timeless toys crafted with care to inspire the next generation of imaginations.

Founded in 1988, the Melissa & Doug team has built a meaningful connection to parents and children to become the leading preschool brand for wooden and sustainable toys.

We are now thrilled to welcome the Melissa & Doug team to Spin Master and to add their broad assortment of toys, games, and capabilities to our portfolio.

The acquisition of Melissa & Doug is strategically compelling. Melissa & Doug is a trusted brand of open-ended, creative toys. Their offering is highly relevant for parents who seek sustainable wooden toys and screen-free play for their child.

The acquisition of Melissa & Doug will bring complementary capabilities in early childhood toys and expands our presence in the earliest years of childhood play.

In addition, as we continue to diversify our toy portfolio, Melissa & Doug provides recurring revenue from a diverse and stable portfolio of toys and games.

We see attractive opportunities for growth by expanding distribution across mass and e-comm channels, and especially through international expansion.

Longer term, we believe there is further growth potential through innovation in areas where we are not active currently.

The acquisition allows us to strategically deploy our cash while still preserving financial flexibility for further growth opportunities and will be immediately accretive to EPS.

Let me now give you more colour on the Melissa & Doug business and our vision for the future as it becomes part of Spin Master.

At Spin Master, we create magical experiences for children and families by reimagining everyday play wherever children play.

As a leading global children's entertainment company, we have the ability to deliver play experiences across a multi-platform diversified portfolio of toys, entertainment properties, and digital games.

The acquisition of Melissa & Doug will help us to shape the next chapter of Spin Master's journey and accelerate our growth trajectory, supporting our vision to reimagine everyday play.

Now we have a proven track record of growth and diversification since we were founded in 1994. A significant part of our evolution has been to seek accretive acquisitions to further diversify our portfolio. And we have diversified from toys into content with the establishment of entertainment in 2008, and we expanded into the digital game sphere with the acquisition of Toca Boca in 2016.

Most of our acquisitions over the past 30 years have been in our toy creative centre, where we have become trusted stewards of world-renowned brands like Tech Deck or Gund and, more recently, the Rubik's Cube.

The planned acquisition of Melissa & Doug represents a significant step forward in our growth trajectory.

Melissa & Doug is a strategically compelling acquisition for us and the largest in our history with the potential to immediately accelerate our growth, with approximately \$490 million as their net sales in 2022.

We already have a strong position in preschool play. Preschool is the largest category within the toy market globally after outdoor, at \$8.3 billion per Circana.

For over 10 years, we've captured young imaginations as the creators of the number-one preschool property, PAW Patrol. In 2018 we acquired Gund, a leader in infant plush.

More recently we became the licensed partner to DreamWorks Animation's Gabby's Dollhouse, the fifth preschool license globally, and just announced that we have licensed Dora the Explorer from Paramount.

Our Sago Mini digital game studios provide parents with creative digital experiences for young, curious kids.

We believe the opportunity exists for further meaningful growth and expansion within the infant, toddler, and preschool category. But to expand our preschool position, we must continually imagine new forms of play to meet the changing demands and desires of parents.

Melissa & Doug was founded by Melissa and Doug Bernstein, two passionate entrepreneurs and parents driven by a vision to create toys that urge kids to think creatively and ignite their imaginations. Similar to our Spin Master founders, they started out with an idea and a dream to make a positive impact on kids. Today, Melissa & Doug has become synonymous with hands-on, open-ended play.

Over the next five years, Gen Z parents will make up the majority of first-time parents. These parents are increasingly informed and involved in their child's early development.

We understand the importance of creating a meaningful relationship with parents and the need to earn their trust in the earliest days of their child's life. This is a skill that Melissa & Doug has mastered through their commitment to open-ended play.

Open-ended play is a powerful teacher powered by the child's imagination. It inspires action and helps young minds develop problem-solving, creative thinking, and social-emotional skills.

Melissa & Doug's co-founder, Melissa Bernstein, once remarked that the best play discovered in creation simply begins with imagination. And this principle has led Melissa & Doug to develop strong expertise in early childhood play trusted by parents to create meaningful experiences.

Now the Melissa & Doug brand is highly rated by parents for quality, sustainability, and developmental play and is known for fostering creativity, imagination, and sustainability. The brand is well recognized, has credibility and relevance amongst parents, and has a high degree of consumer loyalty. The business has a leading e-commerce platform.

However, the business is underrepresented internationally, which we believe presents us an attractive growth opportunity. With the trust of multiple generations of parents, coupled with a leading e-commerce platform, Melissa & Doug has strong potential for global growth.

Melissa & Doug's toy portfolio is segmented into pretend play, which represents about 42 percent of sales; developmental toys at about 20 percent; arts and crafts at 18 percent; fossils, 7 percent; active play and outdoor at around 2 percent; and with the remaining 11 percent attributed to other categories.

Melissa & Doug has a strong recurring revenue base, with about 75 percent of Melissa & Doug's 2022 revenue from SKUs launched in 2017 or prior, which is a testament to the company's enduring product value and ability to generate recurring revenue.

Melissa & Doug complements our preschool offering and will deepen our presence in the earliest years of childhood play. Seventy percent of Melissa & Doug's POS is in segments that are incremental to our current offering.

While our product portfolio is grounded in rich storytelling and engaging characters from popular entertainment series that make their way from show to shelf, inspiring imagination and play, Melissa & Doug excels in toys for early childhood play rooted in developmental principles inspiring open-ended play.

Today, we engage with children ages 2 and up, while Melissa & Doug's engagement begins at infancy.

Their portfolio is evergreen, appealing to a broad consumer audience and stands on its own, independent of content development.

Melissa & Doug diversifies our presence across several highly competitive categories in the US, including infant, toddler and preschool, as well as games and puzzles, arts and crafts, plush and explorative toys.

The acquisition will bolster our reputation and complement our position as an authority of toys for early childhood play.

Melissa & Doug has laid the foundation for growth driven by its existing product line and has begun to expand distribution of the brand across the mass channel. Spin Master has the capabilities to capitalize on incremental growth potential for Melissa & Doug.

We believe we can unlock this potential and accelerate growth for the core business by investing in consumer and brand marketing support in a meaningful way.

Growing Melissa & Doug internationally is a key strategy for us. We will be able to leverage our 26 global sales and marketing offices, as well as our network of distributors to penetrate markets in over 100 countries.

We will thoroughly and thoughtfully apply our signature innovation and leverage our leading licences into innovative new products, giving Melissa & Doug customers more occasions to play.

We will also tap into the strength of the brand to enter adjacencies within the toy category, creating valuable relationships with first-time parents.

Finally, given the power of the trusted Melissa & Doug brand, we see a future where Melissa & Doug can expand into new categories beyond toy, from education to publishing to deepen engagement with consumers.

I will now turn it over to Mark Segal, our CFO, to review the financial aspects.

**Mark Segal** — Chief Financial Officer, Spin Master Corp.

Thank you, Max. We are very excited about this acquisition and are confident that the combination of Spin Master and Melissa & Doug will create long-term benefits for our shareholders.

In 2022, Melissa & Doug generated just under \$490 million in net sales and \$90 million in adjusted EBITDA. At the \$950 million purchase price, this equates to a transaction multiple of 10.5 times adjusted EBITDA and 8.1 times adjusted EBITDA, including run rate cost synergies at the midpoint of the range.

Speaking of synergies, we see potential for run rate cost synergies of \$25 million to \$30 million from targeted SG&A expense reductions through harmonizing the combined back-office operations. We expect to achieve these synergies by the end of 2026.

The acquisition will be immediately accretive to EPS in 2024 pre-synergies and mid-teens accretive to EPS, including run rate cost synergies.

We intend to fund the transaction with approximately \$450 million of cash and debt financing of \$500 million.

Post close, we will continue to have a sound pro forma balance sheet and strong free cash flow generation, which provides us with significant flexibility for further investments and/or subsequent M&A.

We remain committed to our quarterly dividend and the opportunistic buy-back program we implemented this year.

From a timing perspective, the transaction is expected to close in Q1 2024, subject to customary regulatory approvals and closing conditions.

As I mentioned, the purchase price comprises \$950 million at close, plus a potential additional contingent earn-out consideration of up to \$150 million. The earn-out is subject to achieving certain gross profit financial targets in 2024 and 2025 and is scaled linearly to Melissa & Doug's gross profit outperformance versus a target for each year. There will be no earn-out payments if Melissa & Doug does not reach the target threshold.

The aggregate maximum payable over the two-year earn-out period is \$150 million. If incurred, any contingent earn-out payments would be made because the business is performing above our base case forecasts and would be at multiples lower than the transaction multiple at closing, reducing the blended multiple paid.

Spin Master shareholders would extract the majority of the value from the incremental growth implied by achieving the earn-out targets.

If we pay the earn-out, this is expected to be funded from cash generated from ongoing operations.

The acquisition represents a strategic deployment of our capital resources.

Pro forma the transaction, we expect to have a leverage ratio of under 1 times adjusted EBITDA. This allows us to preserve our financial flexibility.

We will continue to generate strong free cash flow and intend to maintain our quarterly dividend and reserve capacity for opportunistic buybacks.

To recap, we are extremely excited about the potential that acquiring Melissa & Doug offers.

Melissa & Doug's founders had a vision to ignite kids' imaginations and a sense of wonder. We share that vision and are driven by the opportunity to create magical play experiences for children and families.

The Melissa & Doug team has built an incredible brand that is widely recognized and trusted in early childhood play, which resonates with today's parents and is well positioned to meet the needs of parents of the future.

We are committed to preserving the essence of what Melissa & Doug represents for families while also leveraging our expertise, global network, and innovation capability in order to unlock growth and inspire future generations.

Through the acquisition of Melissa & Doug, we are reimagining everyday play for future generations.

Together, we can expand our offering in toys for early childhood play and create more meaningful relationships with parents who are increasingly turning to open-ended play to inspire their children and ignite their imaginations.

From a financial perspective, we look forward to leveraging the acquisition to create long-term sustainable value for our shareholders.

That ends the formal part of our presentation.

Operator, we will now take questions. Please go ahead and open the line.

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## Q&A

### Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please \*, followed by the number 1 on your touch-tone phone.

Again, that's \*, followed by the number 1 on your touch-tone phone.

If you would like to withdraw your request, please press \*, followed by the number 2.

Your first question comes from the line of Luke Hannan from Canaccord Genuity. Please go ahead.

### Luke Hannan — Canaccord Genuity

Thanks, and good morning, everyone, and congratulations on the transaction.

I wanted to start with Melissa & Doug. I'm just curious to know a little bit more about you mentioned that there's opportunities to accelerate the marketing of that brand and also the innovation. I'm curious to know if you can share how much maybe as a percentage of revenue where marketing is currently for Melissa & Doug and then maybe R&D, and where specifically in the portfolio you're able on the innovation side of things you envision being able to accelerate product development.

### Max Rangel

Good morning, Luke.

So we believe we start with an incredible brand that has great awareness, that has been built over time through the specialty channel penetration and most recently e-commerce, and the team began recently to actually leverage marketing as a driver for continued growth, but they just began not long ago.

And so we believe there's plenty of opportunity to basically invest marketing at Spin Master, like marketing to sales ratios, so that we can actually get more people into the franchise and increase the brand's penetration.

That's just in the US. If you think about the brand beyond the US, we have great opportunity to leverage, again, a brand that when it has gone abroad it has resonated and use marketing as a lever to, once again, get penetration of the brand in other markets beyond the US.

When it comes to innovation, the brand has had a great set of products that over time have continued to perform and they have had great innovation. Where Spin Master can add value to that team, and that team will continue to lead the innovation is, as you know from our history and our culture, we have a great innovation access to great inventors and a lot of great ideas that we can share with the Melissa & Doug team to bolster their innovation pipeline.

So we feel very confident that we can actually use the playbook we've used before in other acquisitions with Melissa & Doug as well, and they would know best how to take the access we have to all those innovative ideas and leverage that across their portfolio.

**Luke Hannan**

Okay. That's helpful. And then I have a follow-up question, and then I'll pass the line as well.

It was mentioned as one of the white-space opportunities that you guys have now that you'd be able to take advantage of the publishing channel. Would you—I mean, do you have those capabilities internally to be able to develop that through Melissa & Doug? Is that something that you'd be looking at

licensing out? Or would you maybe build that capability internally if you don't currently have it? I'm just curious if you can share a little bit more your thoughts there.

**Max Rangel**

So our entertainment creative centre has great capabilities and we see that as a medium-term opportunity. We don't see that as an immediate opportunity.

There's so much other opportunity that we can capitalize on by basically expanding the current offering internationally, for example, to deepen the penetration of the brand in certain channels that we have more expertise and access immediately, for example.

But publishing for sure is something that is in the future wheelhouse and it's basically how the brand began. Right? Melissa and Doug were basically first able to put their vision through publishing. So we know that we can actually get there eventually, but that's something that our entertainment creative centre has capability to do.

**Luke Hannan**

Okay. Thank you very much.

**Operator**

Your next question comes from the line of Adam Shine from National Bank Financial. Please go ahead.

**Adam Shine — National Bank Financial**

Thanks a lot, and good morning and congratulations.

Can we start with maybe any background on how the sale came about? I think you acquired this from private equity, which had bought it maybe about six years ago. So any details around the sales process was it competitive or not?

And then a few more, please.

**Max Rangel**

Good morning, Adam. We've always admired Melissa & Doug as a brand and followed it very closely, but we won't comment on the specific dynamics.

The work behind the transaction has been ongoing for some time. A strong dialogue with the sponsor, AEA, helped position us during the negotiating period. And so we are pleased that we arrived at the structure and value that made sense for both of us. And that's what I can tell you.

**Adam Shine**

Okay. In terms of revenue profile, can you speak at all about recent year's performance, let alone coming into 2022, or even, frankly, how things have tracked so far in '23?

**Max Rangel**

Absolutely. So what I can tell you and, Mark, maybe you can complement, is that Melissa & Doug has really tracked well with the market.

In fact, in infant preschool, it has outperformed the market if you look at the last five-year performance from 2022 down to 2017. So that period of performance has been a good period for the brand and they've done a great job.

And so they've outperformed. They've grown about 8 percent in that period where the market grew, or the segment of the market grew about 2 percent in the similar period. In 2023, they've actually performed in line with or better than the market from a consumption perspective.

So that's basically the story, and they've done a great job.

**Mark Segal**

Yeah. Just to complement that, Adam, as we've disclosed for 2022, they had a top line of around \$490 million, just under \$490 million. We're not going to be talking about 2023. Obviously, we're still in 2023 from a Spin Master and Melissa & Doug perspective.

And so once we get through the fourth quarter and we are into 2024, we'll be talking about both '23 performance and '24.

**Adam Shine**

Okay. Maybe just one or two quick ones then.

On a geographic basis, I mean, it's clear that there's more potential internationally, as Max alluded to. But is there a geographic split you can give us North America to international?

**Mark Segal**

Yeah. So in 2022, just over 90 percent of their sales came from North America and 10 percent was outside North America.

So that just gives you a sense as to how much opportunity there is for us to grow internationally. Just by way of comparison, Spin Master's international sales would be around 40 percent to 45 percent.

**Adam Shine**

Just lastly in terms of where this will be positioned within your segmentation, the presumption would clearly be within the Activities, Games, Puzzles category. Maybe just a confirmation around there.

And then also just 11 percent of other components that were not disclosed in the presentation, can you elaborate at all further? Are there any elements there that might be deemed noncore for you? Or anything else around the 11 percent extra would be helpful.

**Mark Segal**

Yeah. So, Adam, we can get back to you on a breakdown of the 11 percent.

**Adam Shine**

Okay.

**Mark Segal**

There's nothing in there that we would be looking to, for example, dispose of, if that's where your question—

**Adam Shine**

Got it. Yeah. Yeah.

**Mark Segal**

—is going.

But essentially, the business will remain complete and as a unit as it is today.

There may be opportunities within those segments for us to grow them further, but we can give you the details on that offline in terms of that 11 percent.

In terms of the reporting, at this point now that the deal's been signed and between signing and closing, we're going to look at disclosure how that all actually rolls up. Obviously, from a high-level perspective, Melissa & Doug will roll up into the toy business of Spin Master. How we actually put that within our individual segments within toys is to be determined.

So just stay tuned on that, and we'll work that out over the next quarter.

**Adam Shine**

Okay. Thank you for that. I'll queue up again. Thank you.

**Operator**

The next question comes from the line of Martin Landry from Stifel. Please go ahead.

**Martin Landry — Stifel**

Hi. Good morning. You mentioned in the opening remarks that you see opportunity to expand in the mass channel. It looks like Melissa & Doug is a brand that has a good penetration in the specialty channel.

Can you explain a little bit the dynamic there why are they not—are they under-distributed in the mass channel? Explain to us a little bit why you see opportunity there.

**Max Rangel**

Martin, good morning.

Melissa & Doug has already begun its expansion into the mass market. In 2022 specialty sales for them was about 10 percent and it was down from 20 percent because they already basically were beginning their strategic effort to get into that channel.

And they were actually and are very strong at Target. They recently expanded into Walmart and have an 8-foot section that just went live for the fall 2023 set. So they have doubled their shelf space at Walmart and the number of doors.

And our research showed that this expansion to mass is perceived as positive, both by consumers with greater flexibility and availability, right, for bolstering this brand reputation and access. So we feel very confident and we're very happy that they did that.

So hopefully that gives you a bit of context.

**Martin Landry**

Okay. And can you share what's the proportion of sales that are generated online? Does Melissa & Doug have a transactional website?

**Max Rangel**

They do. They do incredibly well with Amazon and on e-commerce in general.

They have their own site as well, which they use and do really well with too. And e-commerce is their number-one channel. And that channel represents basically about 40 percent of their sales as of now.

And during key events like Prime Day, that brand resonates well above its weight. And it is typically a top 10 brand above and beyond toys just in the whole Amazon ecosystem if I were to basically just name something that happened recently.

So they do really well in e-commerce.

**Martin Landry**

Okay. And then just last question for me. In terms of EBITDA, how volatile or how stable is the EBITDA of Melissa & Doug?

And where does the EBITDA in '22 lies versus historical levels?

**Mark Segal**

So, Martin, good morning.

The EBITDA in 2022 was around \$90 million. And we believe that that is reflective of the earning power of the company going forward.

But what I would say to you is that just given the levers that we have, we actually think we have the potential to even increase the EBITDA over historical rates, but that is reflective of the earnings power of the company.

**Martin Landry**

Okay. Okay. That's it for me. Congratulations.

**Max Rangel**

Thanks.

**Mark Segal**

Thanks, Martin.

**Operator**

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

**Jamie Katz — Morningstar**

Hey. Good morning.

I guess I'm trying to ascertain how you guys are thinking about growth in the infant, toddler, and preschool market. It's clear that you guys see you can grow faster than the market, but the market has maybe struggled for some of the bigger players in their market shares. So where do you think the growth potential is there?

And then where does your market share land post acquisition? Is it like a high-teens percentage of the preschool market? Or how are you guys thinking about that? Thanks.

**Max Rangel**

Absolutely. Hi, Jamie. I think, first and foremost, we believe and have a lot of conviction for the growth potential that Melissa & Doug brings to our portfolio. Why? Because they're highly complementary. So they basically have been growing market share.

If you look at the infant, preschool market share recently, you would have seen that we are also growing market share in our own Spin Master portfolio. And so you're going to have basically what would be entertainment-driven properties, which we would have grown and owned, continuing to be driven by the franchise approach from a Spin Master perspective. And that is very discernibly growing share for us. And so we will continue to do that.

At the same time, you have basically Melissa & Doug, a brand that has grown share. In fact, they actually have the ability to extend us into the lower or the earlier years of childhood play.

And so just if you look at the number of consumers that we actually gain by the combined entity, it is quite staggering that we add just in the US close to 11 million households that we don't currently serve.

And developing a relationship with parents would be very exciting for us as a company to jointly drive forward future market share expansion potential.

**Jamie Katz**

Okay. I guess the other question I have is on the rates that you guys are currently seeing available in the market. I'm just trying to think about debt service costs once this deal closes. So if you were to price today, what sort of rates are you looking at to finance this transaction?

**Mark Segal**

Jamie, I will say two things on that. Firstly, if you're looking for a rate for your model in terms of debt costs, I would be using around 7 percent in terms of what's market rate for Spin Master now, just given the strength of our balance sheets and our pro forma leverage, so 7 percent.

Also keep in mind that we are using some of our cash, approximately \$450 million of that, which would otherwise have generated interest income. So you have to obviously reduce interest income for 2024 by deposit rates and then build in the interest costs of around 7 percent that I just described.

**Jamie Katz**

Excellent. Very helpful. Thank you.

**Operator**

Your next question comes from the line of Andrew Lopez from TD. Please go ahead.

**Andrew Lopez — TD**

Thanks. Good morning.

I'm just wondering, what did AEA bring to the table and kind of add from the acquisition in 2017 to now?

**Max Rangel**

Yeah. So I think AEA did a phenomenal job placing a great team in Melissa & Doug. I'm going to give them credit for that and, honestly, we have a strong team in that group that is able to execute the growth plan. I believe that's the first thing that they did and did really well. They actually built infrastructure for the company. They also did that too, which I think is really exciting.

And so we basically have a strong brand with a strong team, infrastructure investment, and I give them a lot of credit for what they did.

**Andrew Lopez**

Great. And I'm just wondering if you can elaborate on that 75 percent recurring revenue from 2017 just what does that entail? And what are the key products here?

And what is your outlook for that being sustainable going forward?

**Mark Segal**

Yeah. So, Andrew, we're actually excited about the recurring nature of the revenue profile because I think it provides us with a diversified stable revenue base.

If you look at their 2022 revenue, around 75 percent of it came from SKUs that were launched in 2017 or prior. And then if you look at their top 25 SKUs, which comprises around 20 percent of total revenue or actually even less, somewhere between 15 percent and 20 percent, you can see that the portfolio is well diversified.

The final set I'll give you is that the top 15 SKUs primarily consist of SKUs that were launched in 2017 or prior.

So I think that gives you a good sense as to the stable and recurring nature of the revenue stream, which I think is good for us and obviously for you as investors as well.

**Andrew Lopez**

Okay. Great. And any colour on just where those kind of come from in terms of what types of products?

**Mark Segal**

Well, I think it's in line with the portfolio that Max read out earlier. I don't have it right in front of me now, but if you look at the slide presentation, Andrew, we actually went through the categories. So it would be kind of a mix of the categories that we've actually described in the investor deck.

**Andrew Lopez**

Okay. Great. Thank you. I'll get back in the queue. Thank you.

**Mark Segal**

Thanks.

**Operator**

Ladies and gentlemen, just a reminder should you have a question, please press \*, followed by the number 1 on your touch-tone phone.

Your next question comes from the line of David McFadgen from Cormark. Please go ahead.

**David McFadgen — Cormark**

Oh, hi. Thank you. Yeah. Congratulations on the acquisition.

I'm just wondering, if you paid the full earn-out, does that drive the transaction multiple below 8?

**Mark Segal**

Hi, David. Yes. Yes, it actually would. The multiple, the blended multiple, assuming we paid the earn-out, would actually then drop below 8 if that was to happen.

**David McFadgen**

Well, maybe I can push you. Would it drop below 7?

**Mark Segal**

It'll be below 8, yeah.

**David McFadgen**

All right. Okay. And I don't know if you can provide this, but I'm just wondering what are the three best-selling toys for the company?

**Max Rangel**

Yeah. So the best-selling toys for the company, actually quite exciting, are the Dust! Sweep! Mop!, Ice Cream. They have a great number of other pretend-play toys that are super cool, like kitchens and bigger items for pretend play, but those are the bigger SKUs and they've been around for a while and they're terrific.

**David McFadgen**

Okay. And do you see potential to take some of these toys and put them into digital games?

**Max Rangel**

You know what? I think the team at Melissa & Doug has done a terrific job. It's taken a very unique and differentiated positioning, and I believe we're going to continue to nurture that position, and that is one of screen-free play and open-ended play.

And parents today, as you know, are looking for both screen time and off-screen time, and I think they serve an incredible role in off-screen time and we're excited to continue to nurture that.

So that's basically where we are at this point.

**David McFadgen**

Okay. All right. Thank you.

**Operator**

Thank you.

**Mark Segal**

I think I'd like to ask, Operator, I'd like to ask Ronnen Harary on the line to perhaps make a comment or two from a founder perspective.

Ronnen?

**Ronnen Harary** — Chair and Co-founder, Spin Master Corp.

Oh, thanks, Mark. What I would share with everybody that's on the call is just I know there'd been a lot of questions around Spin Master's acquisition strategy and our use of cash on the balance sheet. And I just want to reiterate that for us, it's a lot about patience and waiting for the right potential company to join the fold.

And with Melissa & Doug, it's not often in the toy universe that a brand comes along and a brand that's in good shape with a good management team with very strong positioning that comes available.

And so I'm really proud of the team for their ability to identify it, stay with it, and execute it. It's been a lot of work that's been done to actually get this deal over the line.

But I think it really represents if you go back to the days that we went public in 2015, we always said that we're looking for A brands that have solid, reoccurring revenue attached to them that could be married with Spin Master innovation. And this is a prime example of that.

And the other thing I'd like to say is that we're going to continue to look for other amazing brands, but at the same time continue to look for acquisitions in the other two creative centres of digital games and entertainment.

And the balance sheet is strong and the access to capital is available for us to make those acquisitions. So we're continuing to look. But again for us we're looking for stuff with exceptional brand awareness and exceptional capabilities.

The other thing is just the positioning with Melissa & Doug is it's so clear and it's so nice to have a brand with very clear positioning where it's a leader in wood toys and it's an heirloom brand. It's something that is passed on to siblings and family members and for actually for generations because the majority of products are made from wood and they're actually sustainable, and they can be passed on to many, many kids that can be played with for a long, long time.

And that taps into what's happening, in our opinion, the zeitgeist out there where there's a lot of parents that are looking for sustainable toys, and there's parents that are looking for, as Max mentioned, toys that are screen free.

And the other thing is just the whole notion of creative endless play and using your imagination.

So I'm super proud of the team and looking forward to growing this business and also looking forward to other acquisitions that we could bring into the fold.

**Mark Segal**

Thanks, Ronnen.

Operator, do we have any more questions?

**Operator**

There are no further questions at this time. I'd now like to turn the call back over to you, sir, for any closing remarks.

**Mark Segal**

Okay. Well, I'd like to thank you all for attending today on short notice.

We look forward to reviewing our Q3 results with you on November the 2nd at 9:30 a.m.

Thank you, everyone, and we'll talk to you then.

Operator, you can disconnect now.

**Operator**

Thank you, sir. Ladies and gentlemen, this concludes your conference call for today.

We thank you for participating and ask that you please disconnect your lines. Have a lovely day.