

Spin Master Corp.

Fourth Quarter and Full Year 2024 Results Call

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CORPORATE PARTICIPANTS

Sophia Bisoukis

Spin Master Corp. — Vice President, Investor Relations

Max Rangel

Spin Master Corp. — Director, Global President, and Chief Executive Officer

Mark Segal

Spin Master Corp. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Brian Morrison

TD Cowen — Analyst

Adam Shine

National Bank Financial — Analyst

Martin Landry

Stifel GMP — Analyst

Drew McReynolds

RBC Capital Markets — Analyst

Jamie Katz

Morningstar — Analyst

Luke Hannan

Canaccord Genuity — Analyst

David McFadgen

Cormark Securities — Analyst

Kylie Cochu

Jefferies — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Spin Master's Financial Results Conference Call for the Fourth Quarter and Full Year 2024 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 star, zero for the Operator.

This call is being recorded on Tuesday, February 25, 2025.

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

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

Thank you, and good morning.

Welcome to Spin Master's financial results conference call for the fourth quarter and full year 2024. I'm joined this morning by Max Rangel, Spin Master's Global President and CEO, and Mark Segal, Spin Master's Chief Financial Officer.

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, level of activity, performance, goals or achievements, and any other future events or developments. Forward-looking statements are based on information currently available to Management, and on estimates and assumptions made based on factors that Management believes are appropriate and reasonable in the circumstances. However, there can be no assurance that certain estimates or assumptions will prove to be correct. Many factors could cause actual results to differ materially from those expected or implied by the forward-looking statements. As a result, Spin Master cannot guarantee any forward-looking statements will materialize, and you are cautioned not to place undue reliance on these forward-looking statements.

Except as may be required by law, Spin Master has no obligation to update or revise any forward-looking statements, whether because of new information, future events, or otherwise. For additional information on these assumptions and risks, please consult our cautionary statements regarding forward-looking information in our Earnings release dated February 24, 2025. Please note that Spin Master reports in U.S. dollars, and all other amounts today are expressed in U.S. currency unless otherwise noted.

I would like to turn the call over to Max.

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

Thank you and good morning, and thank all of you for joining us.

Thanks to the collective efforts of our global team across our three creative centres, we delivered several new milestones for the Company in 2024, including achieving total revenue of \$2.3 billion, an increase of 18.8 percent, including incremental revenue of \$375 million from Melissa & Doug.

Fourth quarter revenue was just under \$650 million, an increase of 29 percent, including \$136 million from Melissa & Doug. We were pleased with M&D's top line performance for 2024, which was in line with our expectations. Our investment in M&D deepens our already strong presence in the key Preschool Toy category, extends our reach through childhood education and play, and supports our vision to reimagine everyday play. The integration of M&D is progressing well, and we remain focused on revenue growth and cost synergies.

Let's turn to our Toy POS performance. We started off the fourth quarter with very strong results at retail in the U.S., growing more than 3x faster than the industry in October, including double-digit growth from Melissa & Doug. However, we saw lower-than-expected consumption in the weeks following Black Friday, which reduced sell-through and replenishment.

This past year, we introduced several new lines and expanded our core and licensed offerings. Some of these highlights included the launch of toys for Unicorn Academy, which became the top new gaming property in Europe in 2024, per Circana, and the expansion of our Bitzee Digital Pet with the Magicals and Disney license additions. Bitzee was the number two brand in Youth Electronics globally for both the fourth quarter and 2024, and was also the number one growth brand for the supercategory, per Circana. In 2025, we are further building this exciting play experience with innovative ways to engage, and new licenses, including Jurassic World and Wizarding World.

Licensed products represented 29 percent of our total portfolio revenue, thanks to Ms. Rachel, Monster Jam, Wizarding World, Gabby's Dollhouse, among others. Monster Jam made significant gains in 2024, growing POS by 13.2 percent globally, per Circana. Monster Jam was the number one license in the Vehicles supercategory for both the fourth quarter and 2024.

Q4 was our first quarter with the Ms. Rachel toy line on the shelf, and the line quickly gained strong traction, becoming the number one new license in Toys within the Infant, Toddler, Preschool supercategory in the U.S. The spring line is off to a great start, supported by curated content from Ms. Rachel as part of our ongoing partnership. The combination of Spin Master and M&D has established us as the number one manufacturer for preschool toys, per Circana.

PAW Patrol POS declined both in Q4 and 2024, but PAW Patrol remained the number one Preschool Toy property globally for both periods. Our PAW Patrol: Rescue Wheels figure and vehicle assortment was the number one new item in the Infant, Toddler, Preschool category in both Q4 and 2024 in the U.S. For 2025, we've introduced a PAW line designed to offer the same play value at lower price points to match the trend towards lower retail price points in the segment.

Value will be an important driver for consumers in 2025 as they continue to experience pressure on discretionary spending. We're continuing our strategic pursuit of the Value channel to increase our share of these retailers. Our Value channel toy line is now available in thousands of doors across U.S., Canada, and Europe, and our SKU count will nearly double in 2025.

Turning to Entertainment, revenue decreased as planned, by \$13.9 million for Q4 and \$31 million for 2024, due to a slower pace of content deliveries this year compared to 2023. PAW Patrol continues

to resonate with audiences globally, and has maintained its status as one of the top preschool series in the world. Later this month, we will announce more details regarding our third PAW Patrol Movie, which will launch in theatres in July of 2026, and which is starting to build momentum. In partnership with Nickelodeon and Paramount, we will also be announcing new seasons for both PAW Patrol and Rubble & Crew.

Unicorn Academy is winning globally with fans, taking the number one spot for girls aged six to eight, per Netflix September 2024 report. We just announced two specials which will drop on Netflix in 2025, and we will be expanding linear distribution of the series this year.

We are continuing to expand our feature film slate, with a Bakugan live-action film in development. Brad Peyton is signed on to direct, write, and produce. A global multi-platform franchise, Bakugan has captured the imagination of millions of kids since its launch in 2007. We have co-produced nearly 300 Bakugan TV episodes, and our toy line has generated well over a billion sales worldwide since it first launched. We are going to leverage the deep, multi-generational fan base by bringing the franchise to the big screen.

Turning to Digital Games; revenue for the fourth quarter increased by 13.5 percent due to high in-game purchases for Toca Boca World, and a growth in subscription for Piknik and PAW Patrol Academy. We have continued to transition standalone app subscribers into Piknik, which is helping drive up our recurring revenue base. The fourth quarter improvement in Toca Boca World from a tough quarter three was anchored in the release of two new features and new content, which increased engagement with our players. I'm pleased to share that these measures are having a positive impact on

performance. Fans love the new features, and they were well-timed for the holiday period, during which we typically see kids spending more time on their devices.

We ended Q4 with 61.2 million monthly active users, up from 50.5 million end of Q3 and 62 million end of 2023. In Q4, we saw a steady continuation in the growth of subscriber base, and we ended 2024 with approximately 455,000 subscribers, up 14 percent over 2023. We have continued to transition standalone app subscribers into Piknik, which is helping drive our recurring revenue base.

Unfortunately, the improvement we saw in Q4 was not enough to offset the declines we experienced earlier in the year, resulting in revenue decline by just over \$9 million for the 2024 period. We are confident that with the continued rollout of new features, content, and collaborations, Toca Boca World will continue its upward momentum in 2025. Both Toca Boca World and PAW Academy were just named as winners of the Kidscreen Awards, Best Alternative Kids Digital Game and Best Learning App, respectively.

I want to comment on the investment that we made in Digital Games' development pipeline. The market is competitive, and introducing new titles at scale is challenging. While we developed a high-calibre Match 3 game with Rubik's Match, the cost to acquire new users in this older demographic segment, relative to revenue, did not generate our expected returns. We made the difficult decision to wind down the Nørdlight studio, and we'll be halting Rubik's Match development. This will allow us to focus and maximize the significant growth opportunities we see both with Toca Boca and Piknik.

Contextually for 2025, there are numerous points of volatility we are watching. The two primary ones are the health of the global consumer, and potential U.S. tariffs from China-sourced toys. We are

looking at our supply chain options carefully, as well as considering pricing in order to mitigate the impact. However, our team remains focused on growth. We are very excited about the lineup we are introducing within Toy. There will be several global theatrical releases driving growth, and for which we have licensed products, including Superman, How to Train Your Dragon, Jurassic World, and Gabby's Dollhouse. Twenty-twenty-five will be a foundational year for us to increase Melissa & Doug's penetration in key international markets. We will continue to expand our early childhood reach with Ms. Rachel.

Beyond Toy, our Entertainment creative centre has a robust slate for 2025 with PAW Patrol and Rubble & Crew, and is engaging new audiences with Unicorn Academy and Vida the Vet.

We have a strong Digital Games lineup for '25, with new content and features on Toca Boca World and the integration of PAW Academy and other content into Piknik, providing kids and parents with further excitement and value, and access to digital learning. These combined with the improvements in retention and conversion features will drive subscriber growth.

We are highly focused on executing our long-term growth strategy, and we continue to make significant progress by leveraging our deep expertise in play, well-established global network, and innovation capability to unlock growth and inspire future generations. We're confident in the strength of our diversified portfolio and our ability to drive long-term growth and create shareholder value.

Now, I will turn the call over to Mark.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Thank you, Max, and good morning. We are pleased to report our fourth quarter and 2024 financial results.

We generated Q4 revenue of \$649.1 million, up 29.1 percent, including revenue of \$136 million from Melissa & Doug. Excluding Melissa & Doug, revenue for the quarter increased 2.1 percent, with increases in Toys and Digital Games offsetting lower revenue from Entertainment.

Adjusted EBITDA for Q4 was \$130.9 million, with a 17.5 percent margin, including \$40.9 million from Melissa & Doug, compared to 12.9 percent last year. Adjusted EBITDA excluding Melissa & Doug was \$73 million, compared to \$64.9 million last year.

Looking at our full year, we delivered as expected for both Toys' gross product sales and revenue, which was up 18.8 percent to \$2.26 billion. The \$2.2 billion revenue highlights our position as a larger, more diversified organization, with over \$320 million of revenue, or nearly 15 percent coming from Digital Games and Entertainment. We are excited about the opportunities ahead as we build on this momentum and continue driving sustainable growth.

Melissa & Doug revenue for 2024, in our first year of ownership, was \$374.7 million, in line with expectations. Excluding Melissa & Doug, 2024 revenue was \$1.89 billion, down 90 basis points compared to 2023. Growth in Toy revenue, both with and excluding Melissa & Doug, was offset by declines in Digital Games and Entertainment revenue compared to last year, which included the PAW Patrol Movie and other distribution revenue.

Adjusted EBITDA for 2024 was \$463.6 million including Melissa & Doug, up just under \$45 million compared to \$418.8 million. Adjusted EBITDA margin was 20.5 percent compared to a reported 22 percent. As a reminder, 2023 Adjusted EBITDA included the add-back of the \$50.6 million PAW Patrol Movie amortization. On an apples-to-apples basis, 2023 Adjusted EBITDA margin was 21.3 percent, and as discussed before, should be the basis of all year-over-year comparisons.

Twenty-twenty-four Adjusted EBITDA dollars and margins reflected both the weaker performance of Digital Games, especially in the earlier part of 2024, and higher marketing spend in both Spin Master Toy and M&D late in Q4, which was not as effective at driving increased revenue as we had planned.

Turning now to creative centre performance, Toy gross product sales in Q4 was up 31.4 percent including Melissa & Doug. Excluding Melissa & Doug, Toy gross product sales grew by 1 percent. Melissa & Doug delivered Toy gross product sales of \$152.6 million, contributing to the \$176.4 million increase in our Preschool, Infant & Toddler, and Plush category. The other driver of growth was our Activities, Games & Puzzles, and Dolls & Interactive category, which was up 5.2 percent. This was offset by slight declines in our Wheels & Action, and Outdoors segments.

Q4 Toys' Adjusted EBITDA increased by \$56.9 million to \$76.2 million at an Adjusted EBITDA margin of 13.6 percent, compared to 4.7 percent, as a result of the inclusion of Melissa & Doug which has revenue more heavily weighted to the second half. Twenty-twenty-four Toy gross product sales increased by \$444 million, or just under 25 percent. Excluding 2024 Melissa & Doug Toy gross product sales of \$433 million, Toy gross product sales grew by \$11 million or 1 percent.

Preschool, Infant & Toddler, and Plush increased by 53.6 percent to \$1.1 billion, from the inclusion of Melissa & Doug and Ms. Rachel, partially offset by Gabby's Dollhouse and PAW Patrol.

Activities, Games & Puzzles and Dolls & Interactive increased by 21 percent to \$710.5 million, mainly due to Hatchimals, Unicorn Academy, and Bitzee, partially offset by the Games & Puzzles portfolio.

Wheels & Action decreased 11.8 percent, and Outdoor was down 21.7 percent for the year.

Full-year sales allowances were 40 basis points lower, at 13.4 percent compared to 13.8 percent in 2023, due to fewer markdowns and a favourable customer mix. Our sales allowances rate remained slightly higher than our traditional range of 12 percent to 13 percent, as we worked through some acquired inventory from Melissa & Doug and grew our European business.

Toys' full-year Adjusted EBITDA increased just under \$95 million to \$306.8 million, from the inclusion of Melissa & Doug, higher gross profit, and lower administrative, distribution, and selling expenses. Twenty-twenty-four Toys' Adjusted EBITDA margin was 200 basis points up, at 15.8 percent compared to 13.8 percent. Excluding Melissa & Doug, Toys' Adjusted EBITDA margin was 14.9 percent, up 110 basis points from lower administrative, selling, and distribution expenses relative to Toy revenue.

Twenty-twenty-four Adjusted EBITDA for Melissa & Doug was \$74.1 million at a 19.8 percent margin. Melissa & Doug was accretive to the Toy segment from both a gross margin and Adjusted EBITDA margin perspective.

Looking at Entertainment, Q4 revenue decreased by \$13.9 million to \$41.3 million due to lower distribution revenue resulting from fewer content deliveries. The positive mix impact of fewer content deliveries contributed to an increase in adjusted operating income of \$9.8 million to \$20.3 million, with adjusted operating margin improving to 49.2 percent from 19 percent. Twenty-twenty-four Entertainment revenue declined by \$31.5 million to \$158.6 million, reflecting fewer content deliveries.

As I mentioned, 2023 included \$15.6 million of revenue from the initial release of the second PAW Patrol Movie, as well as Unicorn Academy deliveries. Twenty-twenty-four adjusted operating income rose \$9.6 million to \$90.3 million, compared to \$80.7 million, and adjusted operating margin improved to 56.9 percent from 42.5 percent.

Turning to Digital Games, Q4 revenue increased by \$5.5 million, or 13.5 percent, to \$46.1 million, due to growth in subscription revenue across Piknik, PAW Patrol Academy, and partnership revenue generated from various properties across Toca Boca and Sago Mini. We're pleased to see partnership revenue beginning to grow in our Digital Games business, reflecting the strength of our strategic collaborations. We are excited about the revenue and accretive margin opportunities these partnerships will generate.

Digital Games' adjusted operating income remained relatively flat at \$11.5 million, while adjusted operating margin was 24.9 percent, down from 26.6 percent due to increased investments in paid user acquisition. Following a challenging Q3, Toca Boca World performed significantly better in Q4, both sequentially and against Q4 2023, with improvements in downloads, engagement, and revenue. Sequentially, Toca Boca World revenue increased 22 percent Q4 compared to Q3. This improvement is a

direct result of the strategic actions implemented, including targeted paid user acquisition in higher monetization markets, the launch of new features designed to drive installs, and a strong content pipeline that delivered revenue growth.

In Piknik, we saw a steady continuation in the growth of our subscriber base in Q4, reinforcing the value of the bundled offering. The improved Q4 performance still resulted in a decline of \$9.4 million in 2024 revenue, to \$164.5 million, mostly due to lower in-game revenue in Toca Boca World earlier in the year. The revenue decline in Toca Boca World was partially offset by growth in subscription revenue from both Piknik and PAW Academy. Our ongoing transition of standalone app subscribers into the Piknik bundle has helped grow our margin-accretive monthly recurring revenue.

Twenty-twenty-four adjusted operating income decreased by \$18.2 million to \$39.9 million from \$58.1 million, and adjusted operating margin decreased from 33.4 percent to 24.3 percent from the revenue decline and increased paid user acquisition costs.

As a result of the structural changes in Digital Games that Max mentioned, we took impairments of \$5.5 million on the Rubik's Match intangible asset, and \$2.9 million for goodwill on the Nørdlight studio shutdown. Many of the resources working on Rubik's Match will be reallocated to work on Toca Boca and Piknik. However, some Nørdlight employees were released, resulting in restructuring charges.

Moving back to our consolidated results, Q4 gross profit increased by \$103.5 million to \$365.5 million, from operational improvements in the Toy segment and the inclusion of Melissa & Doug. Gross margin increased 420 basis points to 56.3 percent as a result of lower sales allowances as a percentage of Toy gross product sales, and fewer Entertainment content deliveries.

Twenty-twenty-four gross profit increased \$152.5 million to just under \$1.2 billion, and reported gross margin decreased by 190 basis points to 52.6 percent. However, this included charges of \$66 million related to M&D acquisition-related inventory fair value adjustments. Excluding the \$66 million inventory fair value adjustment, adjusted gross profit increased by \$218.8 million to just over \$1.25 billion, and adjusted gross margin was up 110 basis points to 55.6 percent from 54.5 percent, a strong performance due to an increase in Toys, partially offset by the decline in Digital Games.

Twenty-twenty-four full-year adjusted SG&A increased by \$135.4 million to \$861.8 million, from the inclusion of Melissa & Doug. However, adjusted SG&A as a percentage of revenue remained flat year-over-year at 38.1 percent.

In 2024, we achieved \$10.9 million in net cost synergies, which represents an annualized run rate of \$14 million towards the target of \$25 million to \$30 million in run rate net cost synergies by the end of 2026.

Regarding 2024 tax, we had a one-time tax expense of \$8.1 million in Q4, resulting in an increase of 6.8 percent in the final 2024 effective tax rate. The one-time expense comprises adjustments for the tax impact of foreign currency translations, and certain non-deductible transaction costs related to the M&D acquisition. Our effective tax rate excluding this one-time expense was 24.4 percent.

Turning to the balance sheet, we finished 2024 with inventory of \$184.7 million. At 9 percent of Toys revenue, this is higher than the traditional range of 5 percent to 7 percent, driven by the relatively higher level of Melissa & Doug inventory. Melissa & Doug inventory declined \$46 million to \$67 million, from \$113 million at the beginning of 2024, excluding the fair market value adjustment. We are

continuing to refine the Melissa & Doug inventory levels to improve and optimize working capital and free cash flow.

In Q4, we generated \$175 million in free cash flow, a very strong performance, compared to \$44 million in Q4 '23. For the full year, we generated just over \$250 million in free cash flow, compared to \$123 million in '23. We are reinvesting that free cash flow according to the capital allocation priorities we have described, strengthening our balance sheet and returning cash to shareholders.

In 2024, we returned a total of \$82 million to shareholders, \$54.5 million through the buyback program, and \$27.5 million in dividends. We also reduced our borrowings by \$135 million, and ended the year with \$390 million in debt. We had just under \$234 million in cash on hand, which put our net debt to Adjusted EBITDA ratio at 0.7x, including capitalized leases, below our guide of 0.9x.

Let's now turn to our outlook for 2025. Amidst the challenging macroeconomic environment, Spin Master remains well-positioned strategically, financially, and operationally. We also remain fully committed to continuing to execute our strategy for long-term and shareholder value creation. Twenty-five outlook is on a consolidated basis, which will make year-over-year comparisons far simpler; we will no longer be breaking Melissa & Doug out.

We expect 2025 consolidated Toy GPS to increase 4 percent to 5 percent compared to 2024, driven by innovation in licensed portfolio growth, with seasonality in the first half to be between 31 percent to 33 percent. We expect consolidated revenue to increase 4.4 percent to 6 percent compared to 2024, fuelled by growth in Toy and Digital Games revenue.

We have several key licenses in Toy driving gross product sales and revenue growth, including toys for the How to Train Your Dragon, Superman, and Gabby's Dollhouse movies, as well as the re-launch of Dora the Explorer and the first full year of Ms. Rachel. The Digital Games team is focused on driving growth in Toca Life World and Piknik in 2025.

For Piknik, we have an exciting content lineup, and with continued improvements in retention and conversion features, the inclusion of PAW Academy positions us to drive subscriber growth.

In Entertainment, we expect to see a revenue decline over 2024 from lower content distribution revenue, which is in line with our expected content delivery cycle over the next five years. Entertainment revenue will grow in '26 as we deliver the third PAW Movie and other new content.

On a consolidated basis, we expect Adjusted EBITDA margin of between 20 percent to 21 percent compared to 20.5 percent in 2024. Our guidance at this point excludes the anticipated impact of U.S. tariffs on imports from China and Mexico. Given that the U.S.-China tariff situation is fluid, we will update you at the end of April when we report Q1 Results, regarding our actions and the impact, if any, to our P&L.

We are considering several mitigating factors, including leveraging our geographically diversified supply chain, the FOB versus domestic mix shifts, and potentially pricing. In parallel, we're continuing to diversify our manufacturing footprint in order to reduce our toy volume originating from China, from approximately 50 percent currently, to less than 40 percent by 2027.

Looking at some details for 2025, we expect depreciation and amortization to be approximately \$160 million in 2025, of which around \$90 million will hit COGS. Cash interest paid, net of interest received, will be between \$22 million and \$25 million, with a borrowing rate of approximately 5.5 percent. Our effective tax rate is expected to be approximately 25 percent to 26 percent on a consolidated basis.

Capital expenditures in 2025 are forecast to be approximately 8 percent to 9 percent of revenue, up from 5 percent in 2024 as we continue to invest in creating new Entertainment content and Digital Games content, as well as other corporate initiatives.

The consistent cash flow we've generated gives us confidence in our ability to keep capacity for opportunistic M&A and share buybacks, maintain our dividend, and reduce debt. We are targeting to end 2025 with a net debt to Adjusted EBITDA ratio of approximately 0.6x, including capitalized leases.

To conclude, we look forward to welcoming you to our Investor Day at New York Toy Fair on March 4th. You will then have the opportunity to see our innovative Toy lineup in person and hear from Max and all the creative centre presidents.

That concludes our prepared remarks. We will now be pleased to take questions. Operator, please open the line.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. To ask a question, simply press the star, followed by the number one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, you may press the star, followed by the number two.

Your first question comes from the line of Brian Morrison with TD Cowen. Please go ahead.

Brian Morrison — Analyst, TD Cowen

Thank you. Good morning, Mark. Good morning, Max.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Morning.

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

Morning.

Brian Morrison — Analyst, TD Cowen

I want to look at Digital Games here, because the decline year-over-year was really the shortfall from your guidance, and in Q4, it showed that your investment sequentially started to yield improvement, as Max noted. I want to understand—there's a few questions baked in here. I want to understand these recent investment initiatives, paid user acquisition at Toca Boca, and I think you said

retention and conversion you're targeting at Piknik. Can you just provide comfort in righting that ship for 2025 EBITDA growth, from the 2024 decline?

Then, you said you rolled out new features late in the year, but why was this not implemented earlier in 2024?

Then lastly, I think you said Rubik's was geared towards more adult, which didn't hit the mark, but so was Cubric, so why should we expect different results there?

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

I'm going to basically start and give you more of the strategic context, and then I'll let Mark complement.

Brian, in Q3, we spoke about Toca Boca and the challenges we were facing, and we basically were fixing, already, a few things, which include some very structural and fundamental things, for not just quarter four but for the future. That's what gives us confidence, number one.

We had to basically address our technology, right? We've been doing that, which actually is helping us develop features, which we hadn't done in some time, faster. It's also enabling us to actually get the play value for the players, in a way which they would enjoy the game more, which we now have confidence, because we've seen that response from the players, number one.

Number two, we stood up and started to be more aggressive with live operations, which is so critical for this audience, and is so critical for the future as well. Those are two really important

investments that we began to make. They didn't come earlier in the year because we started to basically make those really in the summer. That's basically the answer to your question on why did it not come earlier than that. The good news is that not only has that helped us in Q4, but it's given us momentum entering 2025, and we're confident. The pace of feature development, the allowance of that feature to actually enable collaborations is really going to help '25, beyond what we were able to accomplish in Q4.

In terms of the paid user acquisition, it's really important because what we've actually now been able to do is address cohorts that actually help us increase our monetization, and our monetization in this space is critical, and is basically what will return a better dollar on the investment we make. This is also helping us, along with live ops and technology, have a better outlook for 2025, including all the features, content, and everything that we described in the script.

Turning to other gains, what we basically realize is that we had to focus on our core, because our core has significantly more upside for us. It was significantly more profitable, and quite frankly, for us to get—and we tried, as part of us being an innovative company and trying things in Digital, that happened to have been Rubik's. But quite frankly, it disappointed us to not be able to get the returns we were expecting, and we pivoted to make sure we've doubled down on core Toca and on Piknik. The Piknik focus is critical, because it's monthly recurring revenue that is very profitable and has a higher LTV, and helps us continue to fund not just that ecosystem, but the entire Digital Games.

I hope that gives you context strategically. I'm going to now turn it over to Mark.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Yes, I think, Max, you answered that really well. I'll see, Brian, if you have any follow-up questions on that, and then I'll take it.

Brian Morrison — Analyst, TD Cowen

No, I think that was pretty well-covered by Max.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Okay.

Brian Morrison — Analyst, TD Cowen

I guess my second question, if I can, is I heard what you said about your balance sheet target leverage mark. I think you said you're going to end the year at 0.6x. Your valuation is unfortunately at all-time lows right now. I think, clearly, you had very strong free cash flow and it drove balance sheet strength in the year. Why would you not be comfortable at, say, one turn, which is where you were after the M&D acquisition? I know you have a small float, but the question really is, are you willing to get more aggressive with your NCIB here?

Mark Segal — Chief Financial Officer, Spin Master Corp.

Well, Brian, just if you look at our capital allocation in 2024, we actually returned about \$82 million in total to shareholders; \$54.5 million of that came from the NCIB, the buyback program. There was about a \$0.05 a share accretion to EPS as a result of that. We pretty much maxed out on our buyback in 2024. As you know, the way the buyback program works is that you get around 10 percent of

your public float, and so we largely bought what we said we were going to buy in 2024 through that program. We also doubled our dividend, and we paid \$27.5 million to shareholders. We really have approached capital allocation, I think, on a balanced total return basis. We've bought shares back, we increased the dividend, and we've paid down debt.

I think we'll continue with a more balanced approach, and leaving some room as well for opportunistic M&A that we see emerging. I think that's basically the way the Board has approached us, and what we'll continue to do for 2025.

Brian Morrison — Analyst, TD Cowen

Well, we should expect you to utilize your NCIB in full for 2025, is a fair comment.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Well, look, we haven't—the NCIB, the buyback actually expires on March 3rd, and we'll make an announcement in due course if the Board approves a new NCIB for '25, '26, but I expect that to be the case.

Brian Morrison — Analyst, TD Cowen

Thanks very much.

Operator

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

Adam Shine — Analyst, National Bank Financial

Hi, good morning. Maybe a couple for you, Mark, and then we'll pivot to Max. Just in terms of the guidance, Entertainment you said was going to be down. Maybe you can help us just size the rate of decline. Are we talking mid-single digits? Are we talking about something a bit more than that? Because, then, if we pivot to Digital Games, Digital Games I guess would have to grow somewhere in the vicinity of 15 percent or more. Does that make sense, Mark?

Then, after that, I'll just go back to Max just with another question.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Sure. Good morning, Adam. Let me address your question in terms of the segmented element of the 2025 guide. As you know, we don't give specific guidance for each segment, but certainly we'll give you some colour to help you build your model out for 2025.

What I can say to you is, directionally, you're accurate, a mid-single digit decline for Entertainment in both revenue and EBIT. The reality is—and Adam, you know this very well from your entertainment knowledge, is that we're kind of in a bit of an inflection point in the cycle on entertainment. We're actually going to be investing in growing content in 2025, which is why you actually see CapEx as a percentage of sales popping up as well, because we're putting a fair bit of money into new content, which is going to kick off a new four to five-year cycle for the Entertainment segment.

As you know, you can't look at Entertainment on a quarterly or an annual basis, because the content delivery cycle is a lot longer than that. In 2025, we were kind of ending off one cycle and then starting off again a new cycle, which is going to drive growth in Entertainment over the next four to five years. But '25 is a down year for Entertainment.

Digital Games, on the other hand, we see revenue going up, as Max described very succinctly. We're doubling down on Toca Boca and on Piknik and Sago. We see some partnership income growing in that area, which is margin-accretive and exciting. We have high expectations for Digital Games in 2025.

Then, on the Toy side, we see gross product sales going up 4 percent to 5 percent, driven by a very strong licensed product lineup in Spin Master, as well as international Melissa & Doug sales. We're now building Melissa & Doug into our international platform in Europe and Australia, and Canada and Mexico. Then, Melissa & Doug is also focused on growing the base through innovation and growing the existing core line.

That gives you, I think, a little bit of segmented colour on the '25 guide. Does that help, Adam?

Adam Shine — Analyst, National Bank Financial

Yes, thanks for that, Mark.

In terms of, Max, Digital Games, there was a big push, obviously, going back to your Investor Day a couple years ago, and then of course the objective of getting to 20 percent of revenues. I wonder if you can just talk to that objective and whether it's being pushed out further in time. Is it also a function of whether the M&A appetite remains in the space?

Then, I would also just add one other question, just around one of your peers, recently noted that they were seeing some inflation, both in terms of logistics and labour, in the Q4 and into early 2025. I was hoping, if you could just speak to that in terms of how you're seeing things as well from your end?

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

Sure. Let me just address the last part of your question so we can focus on the other one. For us, that's not the case. On labour and logistics inflation, I think we're in a good place. I just want to make sure, that's the answer to your question on that front.

Adam Shine — Analyst, National Bank Financial

Okay.

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

Turning to Digital Games, our ambition continues to be to basically get subscribers into Piknik, and we have high ambitions. We're not backing out of what we actually told you a couple of years ago, and we want to get towards 100 million users in our Toca Boca ecosystem. We're not backing away from that. We will be absolutely willing to complement our ecosystems, both in Toca and in subscriptions, with accretive M&A. That is a short answer to your question.

If you actually peel the onion and want to go deeper, I'm happy to, and we're going to do that when we're with you next week, some of you are joining us. But that's basically the answer.

Adam Shine — Analyst, National Bank Financial

Okay. Thanks. I'll queue up again. Appreciate it.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Sorry, Adam, I just want to add maybe one...

Operator

Your...

Mark Segal — Chief Financial Officer, Spin Master Corp.

Sorry, Operator. Just one thing on the question you asked Max on 20 percent of revenue. Adam, if you recall, and everyone, that was a target that we put in place prior to the Melissa & Doug acquisition, so obviously that has to come down as a result of the increase in the Toy base and the overall revenue, just to call that out. We'll update that in due course.

Adam Shine — Analyst, National Bank Financial

Thank you.

Operator

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

Martin Landry — Analyst, Stifel GMP

Hi, good morning, guys. I'd like to dig into your Toys gross product sales guidance. Max, you did allude to value being an important factor in 2025 for consumers. Can you break down volume versus price for 2025, for your growth guidance?

Then, what's your average price point in Toys in '25, and how does that compare to '24?

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

Martin, good morning. The growth in GPS that's built into our '25 guidance is driven by three key components. First and foremost, we have an incredible slate of new theatricals that is making up basically revenue increases over revenue that did not exist in 2024, and that's an important component. When I think about what that is, the two that are most important are basically, How to Train Your Dragon and Dora the Explorer. Those would have not had revenue in '24; they're brand-new revenue building blocks in 2025.

There are other theatricals that are basically helping us, and one is Superman, which is an increase; we didn't have any theatricals in DC in 2024. We'll have Superman, and then we have the Gabby movie, which is coming in late Q3, Q4, which is going to help the Gabby franchise later in the year. Those are the main components of the revenue building blocks of GPS and the guidance for the theatrical slate that we have.

Separate from that, we have the annualization of Ms. Rachel, which is basically a really important building block in terms of growth. Then, last but not least, and Mark alluded to, we have the expansion

of Melissa & Doug internationally. Those are the bigger volume/revenue drivers in GPS that are capturing our guidance.

From a pricing perspective, and getting into your question of how are we '25 versus '24, we're likely going to end up with a lower average retail price of our entire portfolio in '25 versus '24. It is driven by, and it was part of the script, an intentional effort to get some of our core brands to offer really sharp price points and more value, including obviously the bigger brands like PAW Patrol.

Then, third, and importantly, is to make sure that we continue to expand the white space that it is for us, the Value channel. We actually began and grabbed share in the U.S. in the Value channel, but that is going to expand beyond the U.S. more intentionally in '25, into Europe. Those are the components that are captured in the GPS guidance, and then answering your question specifically on pricing.

Martin Landry —Analyst, Stifel GMP

Okay, that's helpful. Mark, I was wondering if you could do a bridge for us of your EBITDA margin for '25 versus '24, just so that we have the main buckets that are at play here?

Mark Segal — Chief Financial Officer, Spin Master Corp.

Well, we're guiding flat, Martin, effectively. I mean, we have given a range of 20 percent to 21 percent; if you take the midpoint of that range, it's flat. There's puts and takes going in both directions. We continue to invest for growth. We continue to manage our costs very, very tightly. You saw our '24 versus '23 SG&A was flat year-over-year on an adjusted basis, excluding some one-time costs.

If you look at '25, we do have some increased selling expenses because of the proportion of sales coming from licensed product. We are going to increase paid user acquisition costs, like to drive monetization at Toca and subscriptions at Piknik. We're also going to invest in some technology to build out our integrated platform, particularly to bring Melissa & Doug onto our systems. We're putting some money into AI investments, both operational efficiency and generative AI.

We continue to invest in the line for innovation. Remember, our product development in 2025 is effectively driving to '26 and '27 lines. We're, I think, balancing off our investments in growth with a very tight focus on our cost structure, and that's effectively why we're landing up guiding approximately flat.

Martin Landry —Analyst, Stifel GMP

Yes, okay, that's helpful. I know you're guiding flat, but there's always puts and takes, right? I'm just trying to understand, do you expect gross margin to increase, to decrease? Do you expect your SG&A as a percentage of sales to be flat, to be up? Just a little bit of colour to help us out, just to understand the evolution?

Mark Segal — Chief Financial Officer, Spin Master Corp.

Yes, I think overall, Martin, I would say to you that the puts and takes that I've given you on the SG&A side will result in a slight increase in adjusted SG&A as a percentage of revenue. That'll be offset by a slightly higher gross margin.

Martin Landry —Analyst, Stifel GMP

Okay. Perfect, thank you, and best of luck.

Operator

Your next question comes from the line of Drew McReynolds with RBC. Please go ahead.

Drew McReynolds —Analyst, RBC Capital Markets

Yes, thanks very much. Three for me.

Maybe on just Melissa & Doug performance in Q4, a little bit lower than, certainly, what we had penciled in, and Max and Mark, you've talked about the late nature of drop shipments in December, and obviously a shorter kind of shopping season. But can you just unpack what you learned on Melissa & Doug that you'd take forward, given it was your first Q4 owning the asset?

Then, on the housekeeping side, maybe for you, Mark, just the increase in CapEx, to fully understand the flow-through of that content investment? Is this a new normal as you kind of build for the next five-year cycle, as you described, or are we running at that higher level for a couple years?

Then, second on housekeeping, just the M&D synergies, what you're expecting in terms of incremental realization in 2025? Thank you.

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

Okay. Drew, good morning. On M&D, the story is as follows in Q4. Following a really strong Q2 and Q3 in terms of both in GPS, or net sales, and consumption. October was really going well, and then

when the market began to actually go down—remember, in Q3, I mean, you receive public data. In Q4, only two weeks of the quarter increased. After Black Friday, bottom line, every week was declining, and there was a lot of panicking by some retailers, who basically shut down some SKUs to preserve their profitability. That is what affected us the most, singlehandedly and basically drove the performance.

As we get into Q1 and move forward, we have great programs to basically get back to what we actually saw in Q2 and Q3, and October.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Drew, just to get back to you on the two questions, and just correct me if I miss anything, please. But you asked about CapEx over the next few years. The 8 percent to 9 percent for 2025 is higher than our historical numbers of around 5 percent to 6 percent. Most of that is coming out of the, I would say newly created entertainment cycle that I described earlier, to Adam's question. I think we will see some elevated CapEx for '25 and '26 and '27. Just keep in mind, during that period, we're actually building new content for both PAW and Rubble, for Unicorn, and for Vida the Vet. We're also doing the PAW Movie 3 for 2026, so you're going to see CapEx for that in '25 and '26, as well as the Bakugan movie in '25, '26, and '27.

You are going to see an elevated CapEx on Entertainment content during that period, as well as some incremental CapEx on Digital Games as we build out Toca Boca and expand that franchise, we do Toca Boca Days, we build out the Sago Mini franchise, and with Piknik. Overall, Entertainment and Digital Games will be driving higher CapEx levels, at least for the '25 to '27 period. Toy, both Spin Master and Melissa & Doug will remain relatively constant, at less than 1 percent of sales.

Then, talking to M&D and then cost synergies overall related to the acquisition, we generated \$10.9 million in 2024, and that equated to around \$14 million on an annualized basis. For 2025, we're expecting cumulatively around \$17 million to \$18 million, so an incremental, say, \$7 million over the 2024 number. Then, we're well on our path to achieving the \$25 million to \$30 million run rate by the end of 2026. I hope that helps.

Does that answer your question?

Drew McReynolds —Analyst, RBC Capital Markets

Yes, it does, Mark. That's great. Thank you.

Operator

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

Jamie Katz —Analyst, Morningstar

Hi, good morning. I want to focus on gross margin again. I guess I was—you guys made it sound like gross margins would be incrementally higher this year, and I'm wondering what's holding them back from getting back to maybe closer to the 2022 and 2023 levels? Is it a function of evolving mix, or is there something else that we should be thinking about?

Mark Segal — Chief Financial Officer, Spin Master Corp.

Jamie, thanks.

Gross margins are actually higher. I think it's very important to just call out the adjustment to reported gross margin because of the inventory fair market value adjustment on the Melissa & Doug acquisition. If you add that \$66 million back, which is a one-time accounting adjustment, you'll see that our gross margins were actually at 55.6 percent...

Jamie Katz —Analyst, Morningstar

Right.

Mark Segal — Chief Financial Officer, Spin Master Corp.

...for 2024, compared to 54.5 percent, so 110 basis points up, year-over-year.

Jamie Katz —Analyst, Morningstar

Right. I'm sorry, I just didn't know if you were guiding for the adjusted or the non-adjusted.

Then...

Mark Segal — Chief Financial Officer, Spin Master Corp.

Yes, no.

Jamie Katz —Analyst, Morningstar

Go ahead.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Yes, that's correct, we are. Because there is no fair market value adjustment in '25 now, that's all gone. We'll be in a normalized situation in '25, and we'll be comping against the adjusted gross margin from 2024, and we expect gross margins to be slightly up.

Jamie Katz —Analyst, Morningstar

Perfect. Then, can you size, maybe, the remaining lift from an increase in Melissa & Doug distribution that you think you have left, I guess, as you move to a more global footprint for the brand? I think that would be helpful to know what has been achieved already, and maybe what is remaining, even if it's just sort of a percentage of progress.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Yes. As I said to you, Jamie, we're not going to give specific M&D guidance anymore. But what I can tell you is that, historically, Melissa & Doug was vastly a U.S. business, less than 10 percent of their sales came out of international markets. In 2024, we did actually get some international growth, very small, in Canada and Mexico; we just going in those markets.

In 2025, we're actually, for the second half of the year, our International team is picking up the entire European and Australian markets, so we expect to see some relatively meaningful growth in the international sales area for Melissa & Doug in late '25, and then accelerating in '26 and beyond.

Jamie Katz —Analyst, Morningstar

That's really helpful. Thank you.

Operator

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

Luke Hannan —Analyst, Canaccord Genuity

Yes, thanks. Good morning, everyone.

I wanted to ask, apologies if it's been asked already, but I wanted to ask about retail inventory to finish the year, and maybe the progression thus far into 2025. I know you mentioned, Mark, that corporate inventory, I believe, was 9 percent of sales; you guys targeted 5 percent to 7 percent. But where do things stand from a retail inventory perspective?

Mark Segal — Chief Financial Officer, Spin Master Corp.

I think retail inventory has finished in a relatively good place, Luke, and good morning. For the year, U.S. inventory was down—our U.S. inventory at retail was down 5 percent year-over-year compared to the industry at 1 percent down, and actually very similar results for the global retail inventories as well. We were actually down 5 percent for the year, compared to around 1 percent down.

I think we're in good shape. We're in good shape both at retail, and also on our inventory. We made some really good headway, as you saw from my prepared remarks, on bringing Melissa & Doug inventory down. They came down from about \$140 million to \$67 million. Our Spin Master inventory was relatively flat, maybe a little bit up, but in very good shape, and good quality inventory as well.

Luke Hannan —Analyst, Canaccord Genuity

Okay, understood. Thank you.

Then, I wanted to follow-up on the Rubik's Match discussion as well. I think I heard you say that the resources that you had at Rubik's Match, some of them were reallocated internally, to be working on Toca Boca and Piknik as well. Maybe just a clarification on that then. Are those resources, if—let's say they're allocated to the Toca Boca team, are there separate teams within Toca Boca 1 that would be focusing on live services or some of the new content or features for Toca World, and then others that would be focused on Toca Days, or are those two separate teams?

I guess I'm trying to figure out—because we've talked a lot on this call about Toca World. I don't know if we've necessarily talked about Toca Days, how that's performing, and maybe what the growth plans are for 2025, but maybe that's a nice segue into that.

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

Absolutely. Luke, good morning. The folks that we brought along from Nørdlight to actually help Toca were actually people who are engineers, and so it's really more for technology. Those are the primary resources we were able to bring along, and are helping with our tech debt that we basically have alluded to, as part of our investment. It's basically across both Toca Life World and Toca Days. That is basically the resource allocation choice we made, and so far that's actually helped us.

With regards to Toca days, we are continuing to work with the property to make sure, as we expand it in the back half of this year, it is actually meeting the KPIs that we need for that property to meet. That's the plan.

Luke Hannan —Analyst, Canaccord Genuity

Okay. Thank you very much.

Operator

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

David McFadgen —Analyst, Cormark Securities

Yes, thank you.

A couple questions. You said that PAW Patrol, the POS declined in the fourth quarter in 2024. I was just wondering if you could give us any specifics on the amount of the decline on a percentage basis?

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

Hi, David. Basically, the property declined as we expected. Recall, in '23 we had the movie year, so this is basically a decline that we saw, as we expected the POS would decline. That is what we have in store, and as we actually go into 2025, we have a number of things that we're actually bringing back in

terms of the themes. We have holiday specials, we have a number of things to once again get back on getting our POS to remain where it is. Remember, we're on the 11th season, so we're also dealing with the cyclical nature of a property that has basically beat every odd. But we're confident, with the content slate and the support we have for the property, that we actually have a plan that bridges us to the '26 period, which is again a movie year. There are a number of other things that the team has done really nicely for '25, including the innovation and the toy quality, and then very importantly, price points, to make sure that we are able to meet customers where they're shopping these days.

David McFadgen —Analyst, Cormark Securities

Okay. Then, a question on the guidance; if I look at the low end of the guidance range, in terms of EBITDA, it would seem to imply that the business overall would be flat, but you would generate the cost savings you're expecting, the incremental cost savings you're expecting from Melissa & Doug, and that would give you—that would result in the low end of the guidance range. Is that a fair characterization?

Mark Segal — Chief Financial Officer, Spin Master Corp.

David, the way I would characterize the guidance range is that, obviously, if you take the midpoint of the range, that would kind of be the target point. But implicitly, because of the uncertainty around tariffs, and we've guided to both a downside and an upside. So, when it comes to tariffs we haven't articulated a specific impact yet. We're waiting 'til Q1 to do that, as we figure things out on a number of supply chain and pricing fronts, but our target is to remain neutral with tariffs—but there

might be some downside, and so we want to actually present a range to help you position the year as you actually build your model out. That was the rationale for that.

David McFadgen —Analyst, Cormark Securities

Okay. Then, when I look at the sales allowance in the fourth quarter, it was down quite a bit. I was just wondering, what was driving that? Was that primarily the impact from M&D coming into the business mix, or was it some other factors?

Mark Segal — Chief Financial Officer, Spin Master Corp.

No, it actually wasn't specifically M&D. What I can tell you is that the 2023 sales allowance, Q4 2023 was extremely high, it was 19-something percent, it was the highest we've ever seen in the fourth quarter in 2023, and we brought that down significantly in Q4 of '24, to 15 percent. That was from lower markdowns and less promotions. I think we managed our sales allowances really well on a year-over-year basis. But one of the issues that we had, in terms of the—much to our consensus, EBITDA number, was that we didn't bring sales allowances down as much as we actually hoped.

If you looked at our guidance for 2024, we guided to a range of 12 percent to 13 percent at the top end. We actually landed at 13.4 percent. Even though we were lower year-over-year, we actually missed on our number in relation to our guidance. That 40 basis points was around \$8 million to \$10 million, and that was one of the reasons why we actually missed on our EBITDA number for 2024.

David McFadgen —Analyst, Cormark Securities

Okay. All right. Thank you.

Operator

Your next question comes from the line of Kylie Cohu with Jefferies. Please go ahead.

Kylie Cohu —Analyst, Jefferies

Hey there. Good morning, everyone. You mentioned in the prepared remarks that the global consumer is kind of one of the biggest variables heading into 2025. I was just curious what you have been seeing; seems to be less responsive to promotions. Anything else you can kind of flag about what you're seeing now?

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

Kylie, you're breaking up. We apologize, but we didn't hear your question well. Can you please repeat it?

Mark Segal — Chief Financial Officer, Spin Master Corp.

Hi, Kylie, if you're still there, would you mind repeating the question? It didn't come through clearly on our end.

Kylie Cohu —Analyst, Jefferies

Hey. Sorry. Can you guys hear me now?

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

Better.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Yes, that's better. Thank you.

Kylie Cochu —Analyst, Jefferies

Okay. Yes, sorry about that. I was just wondering a little bit on the global consumer and the health that you're seeing. It seems like there might be less responsiveness to promos. Anything you can flag there would be helpful.

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

Yes. I think the consumer was really price-sensitive and deal-seeking in the fourth quarter. When a lot of those deals dropped in October, people flocked to those deals. The promotion depth was actually wider than we would've seen, and that basically prevented them from going back and buying more later in the quarter, which prevented the replenishment that typically we expect. We expect that that continues in 2025, and have adjusted our programs accordingly.

Kylie Cochu —Analyst, Jefferies

Got you, super helpful. Then, just a last one, wondering if you could dig in, give a little bit of colour around the margins you expect for each segment? Obviously, I know you don't give it specifically, but just directionally, kind of similar to the revenue, would be helpful. Thank you.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Okay, Kylie, again—yes, I'll give you some colour, but I think in the Toy space, we expect margins to be up over 2024, both in Spin Master and Melissa & Doug. I think Entertainment will be down, for the reasons I described earlier. Then, Digital Games revenue will be up and EBITDA will be flat to down, basically depending on the amount of paid user acquisition that we actually spend. We have the ability in Digital Games to manage our paid user acquisition spend very tightly and in real-time, based on what's actually happening and based on what our return on investment ratios are looking like. I would model Digital Games around flat at this point. Toy up, Digital Games flat, and Entertainment down.

Kylie Cohu —Analyst, Jefferies

Super helpful. Thank you.

Mark Segal — Chief Financial Officer, Spin Master Corp.

I think, Operator, we're at time now, so I think we're going to wrap up at this point.

I just wanted to thank everybody for the call today and for your continued interest. We really look forward to seeing you at New York Toy Fair. It's the first time it's been back in its full form since pre-

COVID days, and I think you're going to enjoy the energy, you're going to enjoy the line, and we're looking forward to hosting you. We'll see you then. Thank you very much, everyone.

Operator

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