

SPIN MASTER CORP.**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS****INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") provides information concerning the Company's financial condition and financial performance for the three and nine months ended September 30, 2020 ("third quarter", "the quarter", "Q3"). This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 ("interim financial statements"), its audited annual consolidated financial statements and accompanying notes ("financial statements") and its annual MD&A for the year ended December 31, 2019 ("Annual MD&A"). Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2019, can be found under the Company's profile on the System of Electronic Document Analysis and Retrieval (SEDAR) which is administered by the Canadian Securities Administrators ("CSA") at www.sedar.com.

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

BASIS OF PRESENTATION

The Company's interim financial statements and accompanying notes have been prepared in accordance with International Accounting Standard 34, Interim Reporting and all financial information is prepared in accordance with International Financial Reporting Standards ("IFRS"). However, certain financial measures contained in this MD&A are non-IFRS measures and are discussed further in the "Non-IFRS Financial Measures" section. All financial information is presented in United States dollars ("\$", "dollars" and "US\$") and has been rounded to the nearest hundred thousand, except per share amounts and where otherwise indicated. As a result, some prior year results may not agree to previously published financial statements due to rounding. The impact of these rounding adjustments do not have a material effect on the Company's financial statements.

BUSINESS OVERVIEW

Spin Master is a leading global children's entertainment company creating exceptional play experiences through a diverse portfolio of innovative toys, entertainment franchises and digital toys and games. Spin Master's entertainment team, through its in-house studio and partnerships with outside creators, has produced 11 television series, including the pre-school hit PAW Patrol and broadcasts content in more than 160 countries globally. The Company has grown its digital games business, which encompasses Toca Boca and Sago Mini apps. The Company is driven by a desire to challenge and expand traditional play patterns through the creation of innovative products, entertainment and digital content.

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

- Innovate using our global internal and external research and development network;
- Developing evergreen global entertainment and digital games;
- Increasing international sales in developed and emerging markets; and
- Leveraging the Company's global platform through strategic acquisitions.

Spin Master's organic growth strategy is centered around the Company's 36-month brand innovation pipeline. This pipeline is fed by internal innovation and multiple touch points with inventors, licensors, consumers and

potential acquisitions, traditional and innovative entertainment content and digital toys. These touch points strengthen consumers' attachments to Spin Master's brands and franchises and are the engine of long-term growth.

Spin Master continues to expand into content for traditional television, video-on-demand, subscription video-on-demand, as well as other short-form and long-form content, including movies, across a variety of distribution channels. In addition, the Company will continue its focus on direct-to-consumer initiatives as consumer purchasing trends in the retail landscape evolve.

Spin Master's business is separated into three geographic segments: North America, comprised of the United States ("U.S.") and Canada; Europe, comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Russia and Greece; and the Rest of World, primarily comprised of Hong Kong, China, Vietnam, India, Australia, Mexico and all other areas of the world serviced by Spin Master's third party distribution network. The Company remains focused on its long-term goal of more than 45% of sales outside of the North America segment.

Spin Master's diversified portfolio of children's products, brands and entertainment properties is reported under five product categories: (1) Activities, Games & Puzzles and Plush; (2) Remote Control and Interactive Characters; (3) Boys Action and Construction; (4) Pre-School and Girls; and (5) Outdoor.

Seasonality factors cause the Company's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's annual sales occur during the third and fourth quarters of the Company's fiscal year with a significant portion of its net income earned and cash flows generated during the same period.

COVID-19 PANDEMIC UPDATE

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. The crisis related to COVID-19 is unprecedented and has had an impact on the Company's employees, customers and suppliers.

Supply Chain

When COVID-19 first emerged early in the first quarter of 2020, it directly affected Spin Master's third party manufacturing capacity in China, which comprises between 60% to 65% of the Company's manufacturing capacity, as well as third party manufacturing in Vietnam, Mexico and India. Capacity progressively improved through the first quarter such that by the end of the quarter it had largely returned to normal levels. During the second and third quarters, Spin Master did not experience any material disruption to its manufacturing as a result of COVID-19 and is currently operating at planned capacity for this time of year. Based on current production levels, the Company anticipates being able to meet the holiday demand.

The Company continues to closely monitor the changing global environment to enable immediate actions to be taken to ensure customer order fulfillment is achieved across the various markets.

Demand

The pandemic spread to customer markets globally late in the first quarter of 2020 and continued through the second and third quarter. Due to government-imposed restrictions and the closure of many retail locations in the second quarter, the pandemic resulted in significant reductions in retail consumer traffic in most countries globally, including some of Spin Master's largest markets. This has put additional pressure on the Company's business, driving disruption in customer behaviour and consumer demand. However, many retail locations have re-opened globally during the third quarter with the exception of some small specialty stores mainly in North America. Online and e-commerce channels continue to remain active in most countries.

Liquidity

During the first quarter of 2020, as a precautionary measure and to increase available cash on hand, the Company drew down \$350.0 million from the \$510.0 million available on its secured revolving credit facility

("Credit Facility"). The Company repaid \$50.0 million and \$300.0 million on its Credit Facility in the second and third quarters of 2020, respectively. As at September 30, 2020, the Credit Facility was undrawn. Given the cash on hand at the end of the quarter and the undrawn capacity in the Credit Facility, the Company believes it has sufficient liquidity to meet its operational requirements.

Spin Master has adopted measures to mitigate the impact to employees, customers, suppliers and the Company as a whole. Spin Master is also taking steps to manage its cash resources by reducing and/or deferring capital expenditures and reducing operating expenses to mitigate the adverse impact of the pandemic. These steps include, but are not limited to, slowing down new employee hiring and reducing marketing, travel and other expenses. Given the dynamic nature of these circumstances, the Company continues to regularly assess the business environment and assess its strategies and plans.

Selected Financial Information

The following provides selected key performance metrics of the Company for the three and nine months ended September 30, 2020, which should be read in conjunction with the financial statements of the Company.

Key Performance Metrics (US\$ millions, except per share information)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Sales and Earnings				
Gross Product Sales ¹	587.4	583.3	1,111.9	1,140.5
Net Sales ¹	523.3	521.4	981.3	1,022.1
Revenue	571.6	548.1	1,080.0	1,108.1
Net income	86.8	92.2	45.2	81.5
Adjusted Net Income ¹	95.1	93.3	38.8	100.6
EBITDA ¹	130.5	150.6	97.9	186.6
Adjusted EBITDA ¹	139.9	150.2	129.1	212.3
Adjusted EBITDA Margin ¹	24.5 %	27.4 %	12.0 %	19.2 %
Earnings Per Share ("EPS")				
Basic EPS	0.85	0.90	0.44	0.80
Diluted EPS	0.83	0.89	0.43	0.79
Adjusted Basic EPS ¹	0.93	0.91	0.38	0.99
Adjusted Diluted EPS ¹	0.91	0.91	0.37	0.98
			Sep 30, 2020	Dec 31, 2019
Balance Sheet Data				
Cash			207.3	115.3
Total assets			1,331.7	1,256.4
Total non-current liabilities			88.6	97.0
	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Cash Flow Data				
Cash provided by operating activities	117.2	106.4	172.6	87.6
Cash used in investing activities	(20.2)	(29.3)	(65.6)	(73.0)
Cash used in financing activities	(303.6)	(1.8)	(12.3)	(8.2)
Free Cash Flow ¹	108.3	128.6	23.6	107.3
Free Cash Flow ¹ , including changes in net working capital ²	96.0	86.5	108.4	24.0

Notes:

1) See "Non-IFRS Financial Measures".

2) See net working capital table in Cash Flow section.

For the three months ended September 30, 2020, revenue of \$571.6 million increased by 4.3% from \$548.1 million in 2019. In Constant Currency terms (a non-IFRS measure), revenue increased by 3.5%. The increase in revenue was primarily driven by higher other revenue and Gross Product Sales (a non-IFRS measure), offset

in part by an increase in Sales Allowances. For the nine months ended September 30, 2020, revenue of \$1,080.0 million decreased by 2.5% from \$1,108.1 million. In Constant Currency terms (a non-IFRS measure), revenue decreased by 2.5%. The decline in revenue was primarily driven by a decline in Gross Product Sales (a non-IFRS measure) and higher Sales Allowances, offset in part by an increase in other revenue.

Net income for the three months ended September 30, 2020 was \$86.8 million, a decrease of \$5.4 million from \$92.2 million. For the nine months ended September 30, 2020, net income was \$45.2 million, a decrease of \$36.3 million from \$81.5 million. Excluding share-based compensation expense, restructuring expense, foreign exchange loss (gain) and a one-time income tax recovery, Adjusted Net Income (a non-IFRS measure) for the three months ended September 30, 2020 was \$95.1 million, an increase of \$1.8 million from \$93.3 million. Adjusted Net Income (a non-IFRS measure) for the nine months ended September 30, 2020 was \$38.8 million, a decrease of \$61.8 million from \$100.6 million.

For the three months ended September 30, 2020, Adjusted EBITDA (a non-IFRS measure) decreased to \$139.9 million or 24.5% of revenue, compared to \$150.2 million or 27.4% in 2019, primarily driven by higher administrative expenses, lower gross profit and higher selling and distribution expenses, offset in part by lower marketing expenses. For the nine months ended September 30, 2020, Adjusted EBITDA (a non-IFRS measure) decreased to \$129.1 million or 12.0% of revenue, compared to \$212.3 million or 19.2% in 2019, primarily driven by lower gross profit and higher distribution and administrative expenses, offset in part by lower marketing expenses.

For the three months ended September 30, 2020, Free Cash Flow (a non-IFRS measure) was \$108.3 million compared to \$128.6 million, a decrease of \$20.3 million. Including changes in net working capital Free Cash Flow (a non-IFRS measure) was \$96.0 million compared to \$86.5 million. For the nine months ended September 30, 2020, Free Cash Flow (a non-IFRS measure) was \$23.6 million compared to \$107.3 million, a decrease of \$83.7 million. Free Cash Flow declined primarily due to lower EBITDA. Including changes in net working capital, Free Cash Flow (a non-IFRS measure) was \$108.4 million compared to \$24.0 million. The increase was primarily due to the collection of trade receivables and lower inventory.

FINANCIAL PERFORMANCE

For the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019:

Consolidated Results

The following tables provide a summary of Spin Master's consolidated results for the three and nine months ended September 30, 2020 and 2019:

(US\$ millions)	Three Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Revenue	571.6	548.1	23.5	4.3 %
Cost of sales	293.7	261.2	32.5	12.4 %
Gross profit	277.9	286.9	(9.0)	(3.1)%
Selling, marketing, distribution and product development	92.2	98.4	(6.2)	(6.3)%
Administrative expenses	67.0	55.5	11.5	20.7 %
Depreciation and amortization expenses	9.5	9.0	0.5	5.6 %
Other income	—	(0.3)	0.3	(100.0)%
Foreign exchange loss (gain)	5.1	(4.1)	9.2	(224.4)%
Finance costs	2.6	3.2	(0.6)	(18.8)%
Income before income tax expense	101.5	125.2	(23.7)	(18.9)%
Income tax expense	14.7	33.0	(18.3)	(55.5)%
Net income	86.8	92.2	(5.4)	(5.9)%

Highlights for the three months ended September 30, 2020 as compared to the same period in 2019:
(US\$ millions, except per share information)

- Revenue of \$571.6 million increased by 4.3% from \$548.1 million. In Constant Currency terms (a non-IFRS measure), revenue increased by 3.5%.
- Gross profit as a percentage of revenue decreased to 48.6% from 52.3%.
- Selling, marketing, distribution and product development expenses decreased to \$92.2 million or 16.1% of revenue from \$98.4 million or 18.0%.
- Administrative expenses increased to \$67.0 million or 11.7% of revenue from \$55.5 million or 10.1%.
- Net income was \$86.8 million or earnings per share of \$0.83 (diluted) compared to \$92.2 million or \$0.89 (diluted).
- Adjusted Net Income (a non-IFRS measure) was \$95.1 million or adjusted earnings per share of \$0.91 (diluted) compared to \$93.3 million or \$0.91 (diluted).
- Adjusted EBITDA (a non-IFRS measure) decreased to \$139.9 million or 24.5% of revenue from \$150.2 million or 27.4%.
- Free Cash Flow (a non-IFRS measure) was \$108.3 million compared to \$128.6 million. Including changes in net working capital, Free Cash Flow (a non-IFRS measure) was \$96.0 million compared to \$86.5 million.
- During the third quarter of 2020, the Company repaid the remaining \$300.0 million outstanding on its Credit Facility, drawn in the first quarter of 2020.

Subsequent Event

On October 27, 2020, the Company announced it reached an agreement to acquire London-based Rubik's Brand Ltd., which owns the rights to Rubik's Cube, for \$50.0 million. The transaction is expected to close on January 4, 2021. Rubik's Cube is expected to be included in the Activities, Games & Puzzles and Plush product category.

(US\$ millions)	Nine Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Revenue	1,080.0	1,108.1	(28.1)	(2.5)%
Cost of sales	593.1	549.2	43.9	8.0 %
Gross profit	486.9	558.9	(72.0)	(12.9)%
Selling, marketing, distribution and product development	232.7	230.6	2.1	0.9 %
Administrative expenses	187.9	181.3	6.6	3.6 %
Depreciation and amortization expenses	27.7	23.8	3.9	16.4 %
Other income	(1.0)	(0.9)	(0.1)	11.1 %
Foreign exchange loss	17.1	5.9	11.2	189.8 %
Finance costs	8.7	8.5	0.2	2.4 %
Income before income tax (recovery) expense	13.8	109.7	(95.9)	(87.4)%
Income tax (recovery) expense	(31.4)	28.2	(59.6)	(211.3)%
Net income	45.2	81.5	(36.3)	(44.5)%

Highlights for the nine months ended September 30, 2020 as compared to the same period in 2019:
(US\$ millions, except per share information)

- Revenue of \$1,080.0 million decreased by 2.5% from \$1,108.1 million. In Constant Currency terms (a non-IFRS measure), revenue decreased by 2.5%.
- Gross profit as a percentage of revenue decreased to 45.1% from 50.4%.
- Selling, marketing, distribution and product development expenses increased to \$232.7 million or 21.5% of revenue from \$230.6 million or 20.8%.

- Administrative expenses increased by \$6.6 million to \$187.9 million from \$181.3 million. As a percentage of revenue, administrative expenses increased to 17.4% from 16.4%.
- Net income was \$45.2 million or earnings per share of \$0.43 (diluted) compared to \$81.5 million or \$0.79 (diluted).
- Adjusted Net Income (a non-IFRS measure) was \$38.8 million or adjusted earnings per share of \$0.37 (diluted) compared to \$100.6 million or \$0.98 (diluted).
- Adjusted EBITDA (a non-IFRS measure) decreased to \$129.1 million or 12.0% of revenue, compared to \$212.3 million or 19.2%.
- Free Cash Flow (a non-IFRS measure) decreased to \$23.6 million compared to \$107.3 million. Including changes in net working capital, Free Cash Flow (a non-IFRS measure) was \$108.4 million compared to \$24.0 million.
- In the first quarter of 2020, the Company borrowed \$350.0 million on its Credit Facility and subsequently repaid \$50.0 million and \$300.0 million in the second and third quarters of 2020, respectively. As at September 30, 2020, the Credit Facility was undrawn.

Revenue

For the three months ended September 30, 2020 as compared to the same period in 2019:

The following table provides a summary of Spin Master's revenue and details by product category for the three months ended September 30, 2020 and 2019:

(US\$ millions)	Three Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Activities, Games & Puzzles and Plush	172.5	152.4	20.1	13.2 %
Remote Control and Interactive Characters	88.6	117.3	(28.7)	(24.5)%
Boys Action and Construction	131.6	103.2	28.4	27.5 %
Pre-School and Girls	182.4	204.0	(21.6)	(10.6)%
Outdoor	12.3	6.4	5.9	92.2 %
Gross Product Sales¹	587.4	583.3	4.1	0.7 %
Sales Allowances ¹	(64.1)	(61.9)	(2.2)	3.6 %
Net Sales¹	523.3	521.4	1.9	0.4 %
Other revenue	48.3	26.7	21.6	80.9 %
Revenue	571.6	548.1	23.5	4.3 %

1) See "Non-IFRS Financial Measures".

Gross Product Sales increased by \$4.1 million or 0.7%, to \$587.4 million with a favourable foreign exchange impact of \$3.2 million or 0.6%. Excluding the impact of foreign exchange, Gross Product Sales increased by \$0.9 million or 0.2% to \$584.2 million. The increase was primarily driven by growth in Boys Action & Construction, Activities, Games & Puzzles and Plush and Outdoor, offset by declines in Remote Control & Interactive Characters and Pre-School & Girls.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by \$20.1 million or 13.2% to \$172.5 million. The increase was driven primarily by increases in *Kinetic Sand*, the Games & Puzzles portfolio and *Cool Maker* as well as sales of *Rainbow Jellies* and *Orbeez*, partially offset by declines in *GUND* and *Bunchems*.

Gross Product Sales in Remote Control and Interactive Characters decreased by \$28.7 million or 24.5% to \$88.6 million, primarily due to lower sales of *Owleez* and *Hatchimals*, partially offset by increases in *Monster Jam RC* and *Ninja Bots*.

Gross Product Sales in Boys Action and Construction increased by \$28.4 million or 27.5% to \$131.6 million. The increase was primarily driven by sales of *DC* licensed products and *Present Pets* as well as higher sales of *Tech Deck*, offset in part by declines in *DreamWorks Dragons*, *Boxer* and *Bakugan*.

Gross Product Sales in Pre-School and Girls decreased by \$21.6 million or 10.6% to \$182.4 million. The decrease was driven primarily by declines in *PAW Patrol*, *Twisty Petz*, *Candylocks* and *Awesome Blossoms*, offset in part by higher sales of *Pre Cool*.

Gross Product Sales in Outdoor increased by \$5.9 million or 92.2% to \$12.3 million.

Sales Allowances increased by \$2.2 million or 3.6% to \$64.1 million and as a percentage of Gross Product Sales, increased 0.3% to 10.9% from 10.6%. The increase was primarily driven by a change in geographic mix due to higher sales in Europe relative to North America.

Other revenue increased by \$21.6 million or 80.9% to \$48.3 million. The increase was largely driven by higher digital games revenue from Toca Boca, which saw significantly increased engagement with the *Toca Life World* platform, as well as higher television distribution revenue. These increases were offset by lower royalty income from products marketed by third parties using Spin Master's owned intellectual property.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the three months ended September 30, 2020 and 2019:

(US\$ millions)	Three Months Ended Sep 30					
	2020	% of GPS	2019	% of GPS	\$ Change	% Change
North America	362.4	61.7 %	372.0	63.8 %	(9.6)	(2.6)%
Europe	159.8	27.2 %	138.2	23.7 %	21.6	15.6 %
Rest of World	65.2	11.1 %	73.1	12.5 %	(7.9)	(10.8)%
Gross Product Sales¹	587.4	100.0 %	583.3	100.0 %	4.1	0.7 %

1) See "Non-IFRS Financial Measures".

As a percentage of total Gross Product Sales, the North America segment decreased 2.1% to 61.7% compared to 63.8% in the prior year. International sales, comprised of the Europe and Rest of World segments, increased 2.1% to 38.3% compared to 36.2% in the prior year.

Gross Product Sales in North America decreased by \$9.6 million or 2.6% to \$362.4 million, with an unfavourable foreign exchange impact of \$0.1 million. The decrease was driven by declines in *PAW Patrol*, *Owleez* and *Hatchimals*, offset in part by sales of DC licensed products and *Present Pets* and increases in *Kinetic Sand*, *Ninja Bots* and *Monster Jam RC*.

Gross Product Sales in Europe increased by \$21.6 million or 15.6% to \$159.8 million, with a favourable foreign exchange impact of \$4.5 million. The increase was primarily driven by increases in *PAW Patrol* and sales of *Present Pets* and DC licensed products, offset in part by declines in *DreamWorks Dragons*, *Owleez* and *Bakugan*.

Gross Product Sales in Rest of World decreased by \$7.9 million or 10.8% to \$65.2 million, with an unfavourable foreign exchange impact of \$1.2 million. The decrease was primarily due to declines in *Bakugan*, *Owleez* and *Hatchimals*, offset in part by sales of *Present Pets* and DC licensed products.

For the nine months ended September 30, 2020 as compared to the same period in 2019:

The following table provides a summary of Spin Master's revenue and details by product category for the nine months ended September 30, 2020 and 2019:

(US\$ millions)	Nine Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Activities, Games & Puzzles and Plush	346.1	295.6	50.5	17.1 %
Remote Control and Interactive Characters	142.0	192.8	(50.8)	(26.3)%
Boys Action and Construction	235.2	216.6	18.6	8.6 %
Pre-School and Girls	313.2	363.8	(50.6)	(13.9)%
Outdoor	75.4	71.7	3.7	5.2 %
Gross Product Sales¹	1,111.9	1,140.5	(28.6)	(2.5)%
Sales Allowances ¹	(130.6)	(118.4)	(12.2)	10.3 %
Net Sales¹	981.3	1,022.1	(40.8)	(4.0)%
Other revenue	98.7	86.0	12.7	14.8 %
Revenue	1,080.0	1,108.1	(28.1)	(2.5)%

1) See "Non-IFRS Financial Measures".

Gross Product Sales decreased by \$28.6 million or 2.5% to \$1,111.9 million, with an unfavourable foreign exchange impact of \$1.3 million or 0.1%. Excluding the impact of foreign exchange, Gross Product Sales decreased by \$27.3 million or 2.4% to \$1,113.2 million. The decrease was driven by declines in Remote Control & Interactive Characters and Pre-School & Girls, partially offset by an increase in Activities, Games & Puzzles and Plush and Boys Action & Construction.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by \$50.5 million or 17.1% to \$346.1 million, primarily driven by increases in *Kinetic Sand* and the Games & Puzzles portfolio as well as sales of *Rainbow Jellies* and *Orbeez*, offset in part by declines in *GUND* and *Bunchems*.

Gross Product Sales in Remote Control and Interactive Characters decreased by \$50.8 million or 26.3% to \$142.0 million, primarily due to declines in *Hatchimals*, *Owleez* and *Juno*, partially offset by higher sales of *Monster Jam RC* and *Ninja Bots*.

Gross Product Sales in Boys Action and Construction increased by \$18.6 million or 8.6% to \$235.2 million, primarily due to sales of DC licensed products and *Present Pets* as well as higher sales of *Tech Deck*, partially offset by declines in *DreamWorks Dragons*, *Boxer*, *Bakugan*, *Meccano* and *Fugglers*.

Gross Product Sales in Pre-School and Girls decreased by \$50.6 million or 13.9% to \$313.2 million, driven by declines in *PAW Patrol*, *Twisty Petz*, *Candylocks*, *Awesome Blossoms* and *Off the Hook*, offset in part by higher sales of *Pre Cool*.

Gross Product Sales in Outdoor increased by \$3.7 million or 5.2% to \$75.4 million.

Sales Allowances increased by \$12.2 million or 10.3% to \$130.6 million and as a percentage of Gross Product Sales, increased 1.3% to 11.7% from 10.4%. The increase is primarily driven by higher non-compliance charges resulting from operational challenges, which arose in the second half of 2019, as well as growth in Europe, which has a higher a Sales Allowance rate structure.

Other revenue increased by \$12.7 million or 14.8% to \$98.7 million, driven by higher digital games revenue from Toca Boca, which saw significantly increased engagement with the *Toca Life World* platform, offset in part by lower royalty income from products marketed by third parties using Spin Master's owned intellectual property.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the nine months ended September 30, 2020 and 2019:

(US\$ millions)	Nine Months Ended Sep 30					
	2020	% of GPS	2019	% of GPS	\$ Change	% Change
North America	711.0	63.9 %	717.5	62.9 %	(6.5)	(0.9)%
Europe	283.0	25.5 %	266.2	23.3 %	16.8	6.3 %
Rest of World	117.9	10.6 %	156.8	13.8 %	(38.9)	(24.8)%
Gross Product Sales¹	1,111.9	100.0 %	1,140.5	100.0 %	(28.6)	(2.5)%

1) See "Non-IFRS Financial Measures".

As a percentage of total Gross Product Sales, the North America segment increased 1.0% to 63.9% compared to 62.9% in the prior year. International sales, comprised of the Europe and Rest of World segments, decreased 1.0% to 36.1% compared to 37.1% in the prior year.

Gross Product Sales in North America decreased by \$6.5 million or 0.9% to \$711.0 million, with an unfavourable foreign exchange impact of \$0.3 million. The decrease was driven primarily by declines in *PAW Patrol*, *DreamWorks Dragons*, *Hatchimals*, *Owleez* and *Juno*, offset in part by sales of DC licensed products and *Present Pets* as well as increases in *Kinetic Sand*, the Games & Puzzles portfolio, *Ninja Bots* and *Monster Jam RC*.

Gross Product Sales in Europe increased by \$16.8 million or 6.3% to \$283.0 million, with a favourable foreign exchange impact of \$2.5 million. The increase was primarily driven by higher sales of PAW Patrol and Bakugan as well as sales of DC licensed products, offset in part by declines in *DreamWorks Dragons* and *Hatchimals*.

Gross Product Sales in Rest of World decreased by \$38.9 million or 24.8% to \$117.9 million, with an unfavourable foreign exchange impact of \$3.5 million. The decrease was primarily driven by declines in *Bakugan*, *DreamWorks Dragons*, *Hatchimals*, *PAW Patrol* and *Owleez*.

Gross Profit as compared to the same period in 2019:

(US\$ millions)	Three Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Revenue	571.6	548.1	23.5	4.3 %
Gross profit	277.9	286.9	(9.0)	(3.1)%
Gross profit as % of revenue	48.6 %	52.3 %	N/A	(3.7)%

For the three months ended September 30, 2020, gross profit decreased by \$9.0 million or 3.1% to \$277.9 million. As a percentage of revenue, gross profit decreased to 48.6% from 52.3%, primarily due to changes in product mix, the sale of inventory resulting from the operational challenges which arose in the second half of 2019 as well as an increase in freight-related expenses, offset in part by higher digital games revenue from Toca Boca and Sago Mini.

(US\$ millions)	Nine Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Revenue	1,080.0	1,108.1	(28.1)	(2.5)%
Gross profit	486.9	558.9	(72.0)	(12.9)%
Gross profit as % of revenue	45.1 %	50.4 %	N/A	(5.3)%

For the nine months ended September 30, 2020, gross profit decreased by \$72.0 million or 12.9% to \$486.9 million. As a percentage of revenue, gross profit decreased to 45.1% from 50.4%, primarily due to changes in product mix, the sale of inventory resulting from the operational challenges, which arose in the second half of 2019 as well as an increase in freight-related expenses, Sales Allowances and higher supplier liabilities as a result of realigning inventory as part of the Company's ongoing operational improvement initiatives. This was partially offset by higher digital games revenue from Toca Boca and Sago Mini.

Selling, Marketing, Distribution and Product Development Expenses as compared to the same period in 2019:

Three Months Ended Sep 30						
(US\$ millions)	2020	% of revenue	2019	% of revenue	\$ Change	% Change
Selling expenses	39.8	7.0 %	36.5	6.7 %	3.3	9.0 %
Marketing expenses	25.0	4.4 %	35.1	6.4 %	(10.1)	(28.8)%
Distribution expenses	20.7	3.6 %	18.4	3.4 %	2.3	12.5 %
Product development expenses	6.7	1.2 %	8.4	1.5 %	(1.7)	(20.2)%
Total	92.2	16.1 %	98.4	18.0 %	(6.2)	(6.3)%

Selling expenses increased by \$3.3 million or 9.0% to \$39.8 million due to higher sales of licensed products. Selling expenses as a percentage of revenue increased to 7.0% from 6.7%.

Marketing expenses decreased by \$10.1 million or 28.8% to \$25.0 million, due to lower traditional and digital media marketing and a decrease in merchandising spend as a result of the COVID-19 environment. These declines were partially offset by higher influencer spend. Marketing expenses as a percentage of revenue decreased to 4.4% from 6.4%.

Distribution expenses increased by \$2.3 million or 12.5% to \$20.7 million, primarily due to higher handling and storage charges as a result of the shift towards higher domestic sales compared to direct import sales and the Company's ongoing operational improvement initiatives. Distribution expenses as a percentage of revenue increased to 3.6% from 3.4%.

Product development expenses decreased by \$1.7 million or 20.2% to \$6.7 million, due to the timing of projects primarily in the Activities, Games & Puzzles and Plush product category.

Nine Months Ended Sep 30						
(US\$ millions)	2020	% of revenue	2019	% of revenue	\$ Change	% Change
Selling expenses	77.5	7.2 %	74.5	6.7 %	3.0	4.0 %
Marketing expenses	63.1	5.8 %	82.4	7.4 %	(19.3)	(23.4)%
Distribution expenses	68.0	6.3 %	51.6	4.7 %	16.4	31.8 %
Product development expenses	24.1	2.2 %	22.1	2.0 %	2.0	9.0 %
Total	232.7	21.5 %	230.6	20.8 %	2.1	0.9 %

Selling expenses increased by \$3.0 million or 4.0% to \$77.5 million due to higher sales of licensed products. Selling expenses as a percentage of revenue increased to 7.2% from 6.7%.

Marketing expenses decreased by \$19.3 million or 23.4% to \$63.1 million, due to lower traditional and digital media marketing, a decrease in experiential marketing and merchandising spend and trade show cancellations as a result of the COVID-19 environment. These declines were partially offset by higher influencer spend. Marketing expenses as a percentage of revenue decreased to 5.8% from 7.4%.

Distribution expenses increased by \$16.4 million or 31.8% to \$68.0 million, primarily due to higher storage and outbound transportation expenses from higher domestic inventory levels carried forward from prior year and the shift towards higher domestic sales compared to direct import sales. Also contributing to the increase are costs related to the Company's ongoing operational improvement initiative, which has reduced the number of warehouses in North America. Distribution expenses as a percentage of revenue increased to 6.3% from 4.7%.

Product development expenses increased by \$2.0 million or 9.0% to \$24.1 million, primarily due to the timing of projects primarily in the Boys Action and Construction and Pre-School and Girls product categories.

Administrative Expenses as compared to the same period in 2019:

(US\$ millions)	Three Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Administrative expenses	67.0	55.5	11.5	20.7 %
Adjustments:				
Restructuring expense ¹	(1.4)	(0.3)	(1.1)	366.7 %
Share based compensation ²	(2.9)	(3.4)	0.5	(14.7)%
Adjusted Administrative Expenses³	62.7	51.8	10.9	21.0 %

1) Restructuring expense primarily relates to personnel related costs.

2) Related to expenses associated with subordinate voting shares granted to equity participants at the time of the IPO, share option expense and long-term incentive plan ("LTIP").

3) See "Non-IFRS Financial Measures".

For the three months ended September 30, 2020, administrative expenses increased by \$11.5 million or 20.7% to \$67.0 million. The increase was primarily due to the timing of personnel related costs and an increase in office operating costs and professional services expenses, offset in part by lower travel related expenses as a result of COVID-19 travel restrictions. Administrative expenses as a percentage of revenue increased to 11.7% from 10.1%. Adjusted Administrative Expenses (a non-IFRS measure) increased by \$10.9 million or 21.0% to \$62.7 million. Adjusted Administrative Expenses (a non-IFRS measure) as a percentage of revenue increased to 11.0% from 9.5%.

(US\$ millions)	Nine Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Administrative expenses	187.9	181.3	6.6	3.6 %
Adjustments:				
Restructuring expense ¹	(4.8)	(8.1)	3.3	(40.7)%
Share based compensation ²	(9.3)	(11.7)	2.4	(20.5)%
Adjusted Administrative Expenses³	173.8	161.5	12.3	7.6 %

1) Restructuring expense primarily relates to personnel related costs. Restructuring expense in the current year includes costs related to changes in senior leadership.

2) Related to expenses associated with subordinate voting shares granted to equity participants at the time of the IPO, share option expense and LTIP.

3) See "Non-IFRS Financial Measures".

For the nine months ended September 30, 2020, administrative expenses increased by \$6.6 million or 3.6% to \$187.9 million. The increase was primarily due to higher professional services expenses, increased office operating costs, an increase in bad debt expense due to the impact of COVID-19 on smaller retailers in the European and North American markets and higher personnel related costs, offset in part by lower travel related expenses as a result of COVID-19 travel restrictions. Administrative expenses as a percentage of revenue increased to 17.4% from 16.4%. Adjusted Administrative Expenses (a non-IFRS measure) increased by \$12.3 million or 7.6% to \$173.8 million. Adjusted Administrative Expenses (a non-IFRS measure) as a percentage of revenue increased to 16.1% from 14.6%.

Finance Costs as compared to the same period in 2019:

For the three months ended September 30, 2020, finance costs decreased by \$0.6 million to \$2.6 million. For the nine months ended September 30, 2020, finance costs increased by \$0.2 million to \$8.7 million. The increase was primarily due to higher interest expense related to the Company's utilization of its Credit Facility, offset in part by lower bank fees, accretion expense and amortization of financing costs.

Depreciation and amortization expense as compared to the same period in 2019:

For the three months ended September 30, 2020, depreciation and amortization expense increased by \$0.5 million to \$9.5 million. For the nine months ended September 30, 2020, depreciation and amortization expense increased by \$3.9 million to \$27.7 million. The increase was primarily due to increased computer software, leasehold improvements, right-of-use assets and equipment.

Foreign exchange loss (gain) as compared to the same period in 2019:

For the three months ended September 30, 2020, there was a foreign exchange loss of \$5.1 million compared to a foreign exchange gain of \$4.1 million. For the nine months ended September 30, 2020, there was a foreign exchange loss of \$17.1 million compared to \$5.9 million. Foreign exchange losses (gains) are generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and gains/losses related to the Company's hedging programs.

Income tax expense (recovery) as compared to the same period in 2019:

For the three months ended September 30, 2020 the Company had an income tax expense of \$14.7 million compared to \$33.0 million. The effective income tax rate was 14.5% compared to 26.4%.

For the nine months ended September 30, 2020 the Company had an income tax recovery of \$31.4 million compared to an income tax expense of \$28.2 million. An internal transfer of intellectual property had a one-time income tax recovery impact of \$33.3 million or 241.3% on the effective tax rate for the nine months ended September 30, 2020. Excluding the impact of the one-time income tax recovery, the effective income tax rate was 13.8% compared to 25.7%. The change in the effective income tax rate was primarily driven by items of revenue or expense not taxable or deductible in determining the taxable income and different tax rates of subsidiaries operating in other jurisdictions.

Net income as compared to the same period in 2019:

Net income for the three months ended September 30, 2020 was \$86.8 million, a decrease of \$5.4 million from \$92.2 million. Excluding share-based compensation, restructuring expense and foreign exchange loss (gain), Adjusted Net Income (a non-IFRS measure) for the three months ended September 30, 2020 was \$95.1 million, an increase of \$1.8 million from \$93.3 million.

Net income for the nine months ended September 30, 2020 was \$45.2 million, a decrease of \$36.3 million from \$81.5 million. Excluding share-based compensation, restructuring expense, foreign exchange loss and a one-time income tax recovery, Adjusted Net Income (a non-IFRS measure) for the nine months ended September 30, 2020 was \$38.8 million, a decrease of \$61.8 million from \$100.6 million.

OUTLOOK

Spin Master continues to focus on driving long-term growth. Its principle strategies include:

- Innovate using our global internal and external research and development network;
- Developing evergreen global entertainment and digital toys properties;
- Increasing international sales in developed and emerging markets; and
- Leveraging the Company's global platform through strategic acquisitions.

Given the uncertain environment associated with COVID-19, the Company has elected to suspend providing guidance until circumstances warrant.

SELECTED QUARTERLY FINANCIAL INFORMATION

Seasonality factors cause Spin Master's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's annual sales occur during the third and fourth quarters of the Company's fiscal year.

The following table provides selected historical information and other data, which should be read in conjunction with the financial statements of the Company.

(in US\$ millions, except EPS)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Gross Product Sales ¹	587.4	282.2	242.3	550.7	583.3	316.8	240.5	465.5
Revenue	571.6	281.1	227.3	473.5	548.1	321.0	239.0	414.3
Adjusted EBITDA ¹	139.9	21.5	(32.3)	6.7	150.2	55.2	7.0	35.2
Adjusted EBITDA Margin ¹	24.5%	7.6%	(14.2)%	1.4%	27.4%	17.2%	2.9%	8.5%
Net income (loss)	86.8	(14.9)	(26.7)	(17.2)	92.2	10.2	(20.9)	11.4
Basic EPS	\$0.85	\$(0.15)	\$(0.26)	\$(0.17)	\$0.90	\$0.10	\$(0.21)	\$0.11
Diluted EPS	\$0.83	\$(0.15)	\$(0.26)	\$(0.17)	\$0.89	\$0.10	\$(0.21)	\$0.11
Adjusted Net Income (Loss) ¹	95.1	(9.5)	(46.8)	(7.8)	93.3	19.9	(12.5)	6.2
Adjusted Basic EPS ¹	\$0.93	\$(0.09)	\$(0.46)	\$(0.08)	\$0.91	\$0.19	\$(0.12)	\$0.06
Adjusted Diluted EPS ¹	\$0.91	\$(0.09)	\$(0.45)	\$(0.08)	\$0.91	\$0.19	\$(0.12)	\$0.06
Cash, net of loans and borrowings	207.3	111.4	74.8	115.3	150.2	77.1	113.8	143.5
Free Cash Flow ¹	108.3	(9.8)	(74.9)	(22.6)	128.6	18.5	(39.9)	(11.5)

1) See "Non-IFRS Financial Measures".

The following table provides reconciliations of net income (loss) to EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss).

(US\$ millions)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Net income (loss)	86.8	(14.9)	(26.7)	(17.2)	92.2	10.2	(20.9)	11.4
Finance costs	2.6	3.3	2.8	3.2	3.2	2.6	2.7	2.9
Depreciation and amortization	26.4	25.7	23.3	16.2	22.2	24.8	21.4	25.4
Income tax expense (recovery)	14.7	2.1	(48.2)	(7.5)	33.0	2.8	(7.6)	2.7
EBITDA¹	130.5	16.2	(48.8)	(5.3)	150.6	40.4	(4.4)	42.4
Adjustments								
Restructuring expense ²	1.4	(1.0)	4.4	0.7	0.3	7.2	0.7	5.0
Foreign exchange loss (gain) ³	5.1	3.5	8.5	(0.1)	(4.1)	3.6	6.3	(13.4)
Share based compensation ⁴	2.9	2.8	3.6	3.5	3.4	3.9	4.4	4.5
Acquisition related incentive compensation ⁵	—	—	—	3.2	—	—	—	(0.3)
Impairment of intangible assets ⁶	—	—	—	5.6	—	—	—	—
Bad debt recovery ⁷	—	—	—	(0.9)	—	—	—	(3.0)
Adjusted EBITDA^{1, 10}	139.9	21.5	(32.3)	6.7	150.2	55.1	7.0	35.2
Finance costs	2.6	3.3	2.8	3.2	3.2	2.6	2.7	2.9
Depreciation and amortization	26.4	25.7	23.3	16.2	22.2	24.8	21.4	25.4
Income tax expense (recovery)	14.7	2.1	(48.2)	(7.5)	33.0	2.8	(7.6)	2.7
One-time income tax recovery ⁸	—	—	33.3	—	—	—	—	—
Tax effect of adjustments ⁹	1.1	(0.1)	3.3	2.6	(1.5)	5.1	3.0	(2.0)
Adjusted Net Income (Loss)¹	95.1	(9.5)	(46.8)	(7.8)	93.3	19.8	(12.5)	6.2

Footnotes:

1) See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs. Restructuring expense included costs related to changes in senior leadership in the first quarter of 2020. In the second quarter of 2019 and fourth quarter of 2018, restructuring expenses also included costs related to facility closures.

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

4) Related to expenses associated with subordinate voting shares granted to equity participants at the time of the Company's IPO, share option expense and LTIP.

5) Remuneration expense associated with contingent consideration for the Cardinal and SwimWays acquisitions.

6) Impairment charges for intangible assets relating to licenses, content development, brands and trademarks.

7) Bad debt recovery related to the bankruptcy declaration and liquidation proceedings of Toys "R" Us during the fourth quarter of 2019 and the fourth quarter of 2018.

8) One-time income tax recovery relates to internal transfer of intangible property of \$33.3 million.

9) Tax effect of adjustments (Footnotes 2-7). Adjustments are tax effected at the effective tax rate of the given year-to-date period.

10) The comparative information presented for 2018 has not been restated for the adoption of IFRS 16. On a pro forma basis, the impact of IFRS 16 on Adjusted EBITDA would be an increase of \$3.3 million for the fourth quarter of 2018.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. As a result of the seasonal nature of the toy and children's entertainment industries, working capital requirements are variable throughout the year. Working capital needs typically grow through the first three quarters as inventories are built up for the peak sales periods for retailers in the fourth quarter. The Company's cash flows from operating activities are typically at their highest levels of the year in the fourth quarter.

Cash flows from operations could be negatively impacted by decreased demand for the Company's products, which may result from factors such as adverse economic conditions and changes in public and consumer preferences, the loss of confidence by the Company's principal customers in the Company and its product lines, or by increased costs associated with manufacturing and distribution of products. The Company's primary capital needs are related to inventory financing, accounts payable funding, debt servicing and capital expenditures for tooling and film production and to fund strategic acquisitions. The Company expects that cash, future operating cash flows and the amounts available to be drawn against the Credit Facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital and financial obligations.

During the first quarter of 2020, as a precautionary measure, the Company borrowed a total of \$350.0 million under its Credit Facility, to maximize liquidity and increase available cash on hand. The Company drew on the Credit Facility due to the uncertainties caused by the COVID-19 pandemic. The Company repaid \$50.0 million and \$300.0 million on its Credit Facility in the second and third quarters of 2020, respectively. As at September 30, 2020, the Credit Facility was undrawn.

The Credit Facility may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions. The Credit Facility also has an option which permits the Company to increase the total capital available by an additional \$200.0 million. As at September 30, 2020, unamortized debt issuance costs related to this facility were \$0.6 million.

On December 19, 2018, the Company entered into an uncommitted Overdraft Facility Agreement (the "European Facility") for \$17.6 million (€15.0 million). The European Facility may be used to fund working capital requirements in Europe. As at September 30, 2020, the European Facility was undrawn.

The Company has a credit facility (the "Production Facility") with a limit of \$7.5 million (\$10.0 CAD million) to finance television and film production. The interest rate on amounts drawn under the Production Facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate. As at September 30, 2020, the Production Facility was undrawn.

Capital and Investment Framework

Over the long term, the Company plans to use its free cash flows to fund seasonal working capital requirements related to product sales, television shows, short-form content, mobile digital development as well as strategic acquisitions.

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

CASH FLOW

The following tables provide a summary of Spin Master's consolidated cash flows for the three and nine months ended September 30, 2020 and 2019:

(US\$ millions)	Three Months Ended Sep 30		
	2020	2019	\$ Change
Net cash flows provided by operating activities	117.2	106.4	10.8
Net cash flows used in investing activities	(20.2)	(29.3)	9.1
Net cash flows used in financing activities	(303.6)	(1.8)	(301.8)
Net (decrease) increase in cash	(206.6)	75.3	(281.9)
Effect of foreign currency exchange rate changes on cash	3.1	(1.0)	4.1
Cash at beginning of period	410.8	77.1	333.7
Cash at end of period	207.3	151.4	55.9

Cash flows provided by operating activities were \$117.2 million for the three months ended September 30, 2020 compared to \$106.4 million, primarily driven by the reduction in net working capital, partially offset by lower EBITDA.

(US\$ millions)	Nine Months Ended Sep 30		
	2020	2019	\$ Change
Net cash flows provided by operating activities	172.6	87.6	85.0
Net cash flows used in investing activities	(65.6)	(73.0)	7.4
Net cash flows used in financing activities	(12.3)	(8.2)	(4.1)
Net increase in cash	94.7	6.4	88.3
Effect of foreign currency exchange rate changes on cash	(2.7)	1.5	(4.2)
Cash at beginning of period	115.3	143.5	(28.2)
Cash at end of period	207.3	151.4	55.9

Cash from Operating Activities as compared to the same period in 2019:

For the nine months ended September 30, 2020, cash flows provided by operating activities were \$172.6 million compared to \$87.6 million, primarily driven by the reduction in net working capital, partially offset by lower EBITDA.

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

(US\$ millions)	Sep 30,	Dec 31,	\$ Change	% Change
	2020	2019		
Trade receivables, net ¹	350.1	370.7	(20.6)	(5.6)%
Other receivables ²	54.2	57.0	(2.8)	(4.9)%
Inventories	155.9	185.3	(29.4)	(15.9)%
Advances on royalties	15.5	18.0	(2.5)	(13.9)%
Prepaid expenses	7.7	14.4	(6.7)	(46.5)%
Total current assets	583.4	645.4	(62.0)	(9.6)%
Trade payables	229.6	215.8	13.8	6.4 %
Accrued liabilities ³	127.3	129.8	(2.5)	(1.9)%
Contract liabilities	15.9	7.6	8.3	109.2 %
Provisions and contingent liabilities	25.4	26.2	(0.8)	(3.1)%
Total current liabilities	398.2	379.4	18.8	5.0 %
Total net working capital	185.2	266.0	(80.8)	(30.4)%

1) Trade receivables are net of allowance for doubtful accounts and provisions for sales allowances. Refer to Note 7 of the financial statements for additional details.

2) Other receivables include investment tax credits receivable, royalties, sales tax and other balances. Refer to Note 7 of the financial statements.

3) Accrued liabilities are comprised of employee compensation liabilities, royalties and commodity tax balances. Refer to Note 12 of the financial statements for additional details.

Total net working capital decreased by \$80.8 million or 30.4% to \$185.2 million at September 30, 2020 from \$266.0 million at December 31, 2019. Excluding the impact of foreign exchange, total net working capital decreased by \$84.8 million.

Trade receivables, net, decreased by \$20.6 million or 5.6% to \$350.1 million at September 30, 2020 from \$370.7 million at December 31, 2019, driven by the timing of collections in line with the seasonality of the business.

Inventories decreased by \$29.4 million or 15.9% to \$155.9 million at September 30, 2020 from \$185.3 million at December 31, 2019. The decrease is driven by the Company's ongoing operational improvement initiatives focused on optimizing inventory levels.

Trade payables increased by \$13.8 million or 6.4% to \$229.6 million at September 30, 2020 from \$215.8 million at December 31, 2019, driven by the timing of payments in line with the seasonality of the business.

Investing Activities as compared to the same period in 2019:

The following tables provide a summary of Spin Master's consolidated cash flows used in investing activities for the three and nine months ended September 30, 2020 and 2019:

(US\$ millions)	Three Months Ended Sep 30		
	2020	2019	\$ Change
Property, plant and equipment			
Tooling	3.5	6.5	(3.0)
Other	1.8	4.1	(2.3)
Total property, plant and equipment	5.3	10.6	(5.3)
Intangible assets			
Brands, licenses and trademark acquisitions	1.0	—	1.0
Content development	12.0	8.1	3.9
Computer software	2.9	1.2	1.7
Total intangible assets	15.9	9.3	6.6
Total capital expenditures	21.2	19.9	1.3
Business acquisitions	(1.0)	9.4	(10.4)
Cash used in investing activities	20.2	29.3	(9.1)

Cash used in investing activities was \$20.2 million for the three months ended September 30, 2020 compared to \$29.3 million. The decrease was primarily driven by the acquisition of *Hedbanz* in the prior year and lower investments in other property, plant and equipment, offset in part by higher investments in content development related to the *PAW Patrol* movie and *Mighty Express*.

(US\$ millions)	Nine Months Ended Sep 30		
	2020	2019	\$ Change
Property, plant and equipment			
Tooling	15.1	19.5	(4.4)
Other	4.1	13.4	(9.3)
Total property, plant and equipment	19.2	32.9	(13.7)
Intangible assets			
Brands, licenses and trademark acquisitions	1.0	—	1.0
Content development	36.4	27.6	8.8
Computer software	7.6	3.6	4.0
Total intangible assets	45.0	31.2	13.8
Total capital expenditures	64.2	64.1	0.1
Proceeds from disposals	—	(0.5)	0.5
Business acquisitions	(1.0)	9.4	(10.4)
Investment in trademark license agreement	2.4	—	2.4
Cash used in investing activities	65.6	73.0	(7.4)

For the nine months ended September 30, 2020, cash used in investing activities was \$65.6 million compared to \$73.0 million. The decrease was primarily driven by the acquisition of *Hedbanz* in the prior year, offset in part by the investment in a trademark license agreement.

Financing Activities as compared to the same period in 2019:

Cash flows used in financing activities were \$303.6 million for the three months ended September 30, 2020 compared to \$1.8 million, primarily driven by the repayment of the Company's Credit Facility. For the nine months ended September 30, 2020, cash flows used in financing activities were \$12.3 million compared to \$8.2 million.

Free Cash Flow as compared to the same period in 2019:

The following tables provide a reconciliation of Spin Master's consolidated Free Cash Flow (a non-IFRS measure) to cash from operations for the three and nine months ended September 30, 2020 and 2019:

(US\$ millions)	Three Months Ended Sep 30		
	2020	2019	\$ Change
Cash flows provided by operating activities	117.2	106.4	10.8
Changes in net working capital	12.3	42.1	(29.8)
Net cash flows provided by operating activities before net working capital changes	129.5	148.5	(19.0)
Cash flows used in investing activities	(20.2)	(29.3)	9.1
Plus:			
Cash used for license, brand and business acquisitions	(1.0)	9.4	(10.4)
Free Cash Flow¹	108.3	128.6	(20.3)

(US\$ millions)	Nine Months Ended Sep 30		
	2020	2019	\$ Change
Cash flows provided by operating activities	172.6	87.6	85.0
Changes in net working capital	(84.8)	83.3	(168.1)
Net cash flows provided by operating activities before net working capital changes	87.8	170.9	(83.1)
Cash flows used in investing activities	(65.6)	(73.0)	7.4
Plus:			
Cash used for license, brand and business acquisitions	1.4	9.4	(8.0)
Free Cash Flow¹	23.6	107.3	(83.7)

1) See "Non-IFRS Financial Measures".

Free Cash Flow was \$108.3 million for the three months ended September 30, 2020 compared to \$128.6 million, a decrease of \$20.3 million. Free Cash Flow declined primarily driven by a decrease in EBITDA. Including changes in net working capital Free Cash Flow was \$96.0 million compared to \$86.5 million.

For the nine months ended September 30, 2020, Free Cash Flow was \$23.6 million compared to \$107.3 million, a decrease of \$83.7 million. The decline in Free Cash Flow was primarily driven by a decrease in EBITDA. Including changes in net working capital Free Cash Flow was \$108.4 million compared to \$24.0 million.

COMMITMENTS

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

OFF-BALANCE SHEET ARRANGEMENTS

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

CAPITALIZATION

Share Capital

As at November 11, 2020, there were 102.0 million shares outstanding comprised of 70.6 million Multiple Voting Shares and 31.4 million Subordinate Voting Shares.

As of November 11, 2020, pursuant to grants under the Company's Long-Term Incentive Plan, 0.8 million Subordinate Voting Shares were issuable under outstanding Restricted Stock Units, up to 1.8 million Subordinate Voting Shares were issuable under outstanding Performance Share Units (assuming vesting at a maximum of 200% for units with an outstanding performance period) and 0.5 million Subordinate Voting Shares were issuable under outstanding Share Option grants.

RELATED PARTY TRANSACTIONS

The Company periodically engages the services of a law firm whose managing partner is also a member of the Company's Board of Directors. During the nine months ended September 30, 2020, the fees for services rendered were approximately \$0.7 million (2019 - \$0.3 million).

CRITICAL ACCOUNTING ESTIMATES

Included in the Company's 2019 financial statements, as well as in the Company's 2019 Annual MD&A, are the accounting policies under IFRS and estimates that are critical to the understanding of the business and to the results of operations. For the nine months ended September 30, 2020, there were no changes to the critical accounting estimates of the Company from those reported in the 2019 Annual MD&A and financial statements.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to the Company's accounting policies from those disclosed in the Company's 2019 Annual MD&A, except as set forth below.

IFRS 16 Leases

The Company has adopted the IFRS 16 amendment regarding COVID-19-Related Rent Concessions effective June 1, 2020. The amendment provides lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification.

The Company, as a lessee, has elected to apply the practical expedient to all eligible contracts and has accounted for rent concessions occurring as a direct consequence of COVID-19 as if they were not lease modifications. The forgiveness of lease payments is accounted for as a variable lease payment and that part of the lease liability is derecognized. For deferrals of lease payments, interest continues to be recognized on the lease liability and the liability is reduced once payments are made to the lessor.

The Company has applied the amendment and has recognized an impact for the nine months ended September 30, 2020 in its lease liabilities on the balance sheet of \$0.1 million related to rent forgiveness and \$0.8 million related to rent deferrals.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's Internal Control over Financial Reporting ("ICFR") during the nine months ended September 30, 2020 which have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

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

NON-IFRS FINANCIAL MEASURES

In addition to using financial measures prescribed under IFRS, references are made in this MD&A to "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income", "Free Cash Flow", "Gross Product

Sales", "Constant Currency", "Sales Allowances", "Net Sales" and "Adjusted Administrative Expenses" which are non-IFRS financial measures. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

EBITDA is calculated as net earnings before finance costs, income tax expense and depreciation and amortization.

Adjusted EBITDA is calculated as EBITDA excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring expenses, foreign exchange gains or losses and equity-settled share based compensation expenses. Adjusted EBITDA is used by management as a measure of the Company's profitability.

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

Adjusted Net Income is calculated as net income excluding adjustments, as defined above, in addition to a one-time income tax recovery and the corresponding impact these items have on income tax expense. Management uses Adjusted Net Income to measure the underlying financial performance of the business on a consistent basis over time.

Constant Currency represents Revenue and Gross Product Sales results that are presented excluding the impact from changes in foreign currency exchange rates. The current period and prior period results for entities reporting in currencies other than the US dollar are translated using consistent exchange rates, rather than using the actual exchange rate in effect during the respective periods. The difference between the current period and prior period results using the consistent exchange rates reflects the changes in the underlying performance results, excluding the impact from fluctuations in foreign currency exchange rates.

Free Cash Flow is calculated as cash flows provided by/used in operating activities before changes in net working capital and after cash flows used in investing activities before cash used in license, brand and business acquisitions. Management uses the Free Cash Flow metric to analyze the cash flow being generated by the Company's business.

Gross Product Sales represent sales of the Company's products to customers, excluding the impact of Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses changes in Gross Product Sales to provide meaningful comparisons across product category and geographical segment results to highlight trends in Spin Master's business. For a reconciliation of Gross Product Sales to Revenue, please see the revenue table for the three and nine months ended September 30, 2020 as compared to the same period in 2019 in this MD&A.

Sales Allowances represent marketing and sales credits requested by customers relating to factors such as cooperative advertising, contractual discounts, negotiated discounts, customer audits, volume rebates, defective products and costs incurred by customers to sell the Company's products and are recorded as a reduction to Gross Product Sales. Management uses Sales Allowances to identify and compare the cost of doing business with individual retailers, different geographic markets and amongst various distribution channels.

Net Sales represents Gross Product Sales less Sales Allowances. Management uses Net Sales to evaluate the Company's total net revenue generating capacity compared to internal targets and as a measure of Company performance.

Adjusted Administrative Expenses is calculated as administrative expenses adjusted for restructuring expenses and equity-settled share based compensation expenses. Please see the Adjusted Administrative Expenses table for the three and nine months ended September 30, 2020 as compared to the same period in 2019 in this MD&A.

Management believes the non-IFRS measures defined above are important supplemental measures of operating performance and highlight trends in the core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is more consistent and

comparable between reporting periods. The Company believes that lenders, securities analysts, investors and other interested parties frequently use these non-IFRS financial measures in the evaluation of issuers.

Reconciliation Tables

The following table presents a reconciliation of net income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash provided by Operations to Free Cash Flow for the three and nine months ended September 30, 2020, and 2019:

(in US\$ millions, except percentages)	Three Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Reconciliation of Non-IFRS Financial Measures				
Net income	86.8	92.2	(5.4)	(5.9)%
Income tax expense	14.7	33.0	(18.3)	(55.5)%
Finance costs	2.6	3.2	(0.6)	(18.8)%
Depreciation and amortization	26.4	22.2	4.2	18.9 %
EBITDA¹	130.5	150.6	(20.1)	(13.3)%
Adjustments:				
Restructuring expense ²	1.4	0.3	1.1	366.7 %
Foreign exchange loss (gain) ³	5.1	(4.1)	9.2	(224.4)%
Share based compensation ⁴	2.9	3.4	(0.5)	(14.7)%
Adjusted EBITDA¹	139.9	150.2	(10.3)	(6.9)%
Income tax expense	14.7	33.0	(18.3)	(55.5)%
Finance costs	2.6	3.2	(0.6)	(18.8)%
Depreciation and amortization	26.4	22.2	4.2	18.9 %
Tax effect of adjustments ⁵	1.1	(1.5)	2.6	(173.3)%
Adjusted Net Income¹	95.1	93.3	1.8	1.9 %
Cash provided by operations	117.2	106.4	10.8	10.2 %
Changes in net working capital	12.3	42.1	(29.8)	(70.8)%
Cash provided by operations before net working capital changes	129.5	148.5	(19.0)	(12.8)%
Cash used in investing activities	(20.2)	(29.3)	9.1	(31.1)%
Plus:				
Cash used for license, brand and business acquisitions	(1.0)	9.4	(10.4)	(110.6)
Free Cash Flow¹	108.3	128.6	(20.3)	(15.8)%

1) See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs.

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

4) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the IPO, share option expense and LTIP.

5) Tax effect of adjustments (Footnotes 2-4). Adjustments are tax effected at the effective tax rate of the given period.

(in US\$ millions, except percentages)	Nine Months Ended Sep 30			
	2020	2019	\$ Change	% Change
Reconciliation of Non-IFRS Financial Measures				
Net income	45.2	81.5	(36.3)	(44.5)%
Income tax (recovery) expense	(31.4)	28.2	(59.6)	(211.3)%
Finance costs	8.7	8.5	0.2	2.4 %
Depreciation and amortization	75.4	68.4	7.0	10.2 %
EBITDA¹	97.9	186.6	(88.7)	(47.5)%
Adjustments:				
Restructuring expense ²	4.8	8.1	(3.3)	(40.7)%
Foreign exchange loss ³	17.1	5.9	11.2	189.8 %
Share based compensation ⁴	9.3	11.7	(2.4)	(20.5)%
Adjusted EBITDA¹	129.1	212.3	(83.2)	(39.2)%
Income tax (recovery) expense	(31.4)	28.2	(59.6)	(211.3)%
Finance costs	8.7	8.5	0.2	2.4 %
Depreciation and amortization	75.4	68.4	7.0	10.2 %
One-time income tax recovery ⁵	33.3	—	33.3	n.m.
Tax effect of adjustments ⁶	4.3	6.6	(2.3)	(34.8)%
Adjusted Net Income¹	38.8	100.6	(61.8)	(61.4)%
Cash provided by operations	172.6	87.6	85.0	97.0 %
Changes in net working capital	(84.8)	83.3	(168.1)	(201.8)%
Cash provided by operations before net working capital changes	87.8	170.9	(83.1)	(48.6)%
Cash used in investing activities	(65.6)	(73.0)	7.4	(10.1)%
Plus:				
Cash used for license, brand and business acquisitions	1.4	9.4	(8.0)	(85.1)%
Free Cash Flow¹	23.6	107.3	(83.7)	(78.0)%

1) See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs. Restructuring expense in the current period includes costs related to changes in senior leadership.

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

4) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the IPO, share option expense and LTIP.

5) One-time income tax recovery relates to internal transfer of intangible property of \$33.3 million.

6) Tax effect of adjustments (Footnotes 2-4). Adjustments are tax effected at the effective tax rate of the given period.

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this MD&A constitute “forward-looking information” within the meaning of certain securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this MD&A. The words “plans”, “expects”, “projected”, “estimated”, “forecasts”, “anticipates”, “indicative”, “intend”, “guidance”, “outlook”, “potential”, “prospects”, “seek”, “strategy”, “targets” or “believes”, or variations of such words and phrases or statements that certain future conditions, actions, events or results “will”, “may”, “could”, “would”, “should”, “might” or “can”, or negative versions thereof, “be taken”, “occur”, “continue” or “be achieved”, and other similar expressions, identify statements containing forward-looking information. Statements of forward-looking information in this MD&A include, without limitation, statements with respect to: the Company’s intentions to issue guidance in the future (see “Outlook”); future growth expectations; financial position, cash flows and financial performance; drivers for such growth; the ability of the Company to meet holiday demand; the resolution of logistics problems; the program to achieve operational efficiencies; impact of acquisitions on future financial performance; the successful execution of its strategies for growth; the impacts of the COVID-19 pandemic on the Company; the completion and timing of the proposed acquisition; and consumer demand and the seasonality of financial results and performance.

Forward-looking statements are necessarily based upon management’s perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management as of the date on which the statements are made in this MD&A, are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being incorrect. In addition to any factors and assumptions set forth above in this MD&A, the material factors and assumptions used to develop the forward-looking information include, but are not limited to: the ability of factories to manufacture products, including labour size and allocation, tooling, raw material and component availability, ability to shift between product mix, and customer acceptance of delayed delivery dates; that the program designed to gain operational efficiencies will achieve the desired results; the expanded use of advanced technology, robotics and innovation the Company applies to its products will have a level of success consistent with its past experiences; the Company will continue to successfully secure broader licenses from third parties for major entertainment properties consistent with past practices; the expansion of sales and marketing offices in new markets will increase the sales of products in that territory; the Company will be able to successfully identify and integrate strategic acquisition opportunities; the Company will be able to maintain its distribution capabilities; the Company will be able to leverage its global platform to grow sales from acquired brands; the Company will be able to recognize and capitalize on opportunities earlier than its competitors; the Company will be able to continue to build and maintain strong, collaborative relationships; the Company will maintain its status as a preferred collaborator; the culture and business structure of the Company will support its growth; the current business strategies of the Company will continue to be desirable on an international platform; the Company will be able to expand its portfolio of owned branded intellectual property and successfully license it to third parties; use of advanced technology and robotics in the Company’s products will expand; access of entertainment content on mobile platforms will expand; fragmentation of the market will continue to create acquisition opportunities; the Company will be able to maintain its relationships with its employees, suppliers and retailers; the Company will continue to attract qualified personnel to support its development requirements; and the Company’s key personnel will continue to be involved in the Company products and entertainment properties will be launched as scheduled and that the risk factors noted in this MD&A, collectively, do not have a material impact on the Company.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this MD&A. Such risks and uncertainties include, without limitation, the magnitude and length of economic disruption as a result of the COVID-19 pandemic, there can be no assurance that the proposed acquisition will occur, and the terms of the proposed acquisition could be modified, restructured or terminated; and the factors discussed in the Company’s disclosure materials, including the Annual MD&A and the Company’s most recent AIF, filed with the securities regulatory authorities in Canada and available under the Company’s profile on SEDAR (www.sedar.com). These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

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