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FINAL TRANSCRIPT

Spin Master Corp.

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PRESENTATION

Operator

Good morning. My name is Adam, and I will be your conference Operator today. And at this time, I'd like to welcome everyone to the Spin Master Fourth Quarter 2018 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise, and after the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during that time, simply press *, then the number 1 on your telephone keypad. And if you would like to withdraw your question, please press the # key. Thank you.

You may now begin your conference.

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

Thank you, Adam. Good morning. And welcome to Spin Master's financial results conference call for the fourth quarter and year ended December 31, 2018. My name is Sophia Bisoukis, and I am Spin Master's Vice President, Investor Relations. I am joined this morning by Ronnen Harary, Chairman and Co-Chief Executive Officer; Ben Gadbois, President and Chief Operating Officer; and Mark Segal, Chief Financial Officer of Spin Master.

For your convenience, the press release, MD&A, and audited consolidated financial statements for the fourth quarter and full year 2018 are available on the Investor Relations section of our website at spinmaster.com and on SEDAR.

Before we begin, please note that remarks on this conference call may contain forward-looking statements about Spin Master's current and future plans; expectations; intentions; results; levels of activity; performance, goals, or achievements; or 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 such estimates and assumptions will prove to be correct. Many factors could cause actual results to differ materially from those expressed or implied by the forward-looking statements. As a result, Spin Master cannot guarantee that any forward-looking statements will materialize, and you are cautioned not to place undue reliance on these forward-looking statements.

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 the cautionary statement regarding forward-looking information contained in the Company's earnings release dated March 6, 2019.

Please note that Spin Master reports in US dollars, and all dollar amounts to be expressed today are in US currency.

I would now like to turn the conference over to Ronnen.

Ronnen Harary — Chairman and Co-Chief Executive Officer, Spin Master Corp.

Thanks, Sophia. Good morning, and thanks for your interest in Spin Master. Yesterday, we reported our financial results for the fourth quarter and year ended December 31, 2018.

I'll begin the call with some brief highlights for the quarter and the year and then look ahead to 2019, before Mark provides you with a more detailed review of our financial results, including our formal outlook for 2019. Ben will then discuss our operational results.

We are pleased with our performance in 2018, as we successfully navigated through a year overshadowed by the significant industry disruption caused by the Toys "R" Us US liquidation. We believe that the industry will level set itself in 2019, especially in the second half of the year. I want to reiterate that we are channel agnostic, and we will evolve as required to continue to grow and support a challenging and changing retail environment.

When we look back at 2018 and reflect on Spin Master holistically and not just in financial terms, it is obvious that we have made some very significant progress. We've built a strong, long-term platform for growth.

Although our gross product sales in the fourth quarter for Hatchimals declined, it is important to remember that Hatchimals represents a magical play pattern, which we pioneered, and there are millions of children who have experienced the magic of birthing a Hatchimal. This has created a very high brand awareness for Hatchimals globally. We believe that this play pattern will continue to resonate with kids worldwide, and it is our job to continuously bring innovation to keep kids engaged.

As you saw recently, we introduced the Hatchiwow (phon) in New York, which is a clear example of our innovation. And we believe the strength of the Hatchimals brand globally, coupled with our ability to push the bounds of innovation and the unexpected, will continue to entertain and delight kids into the future.

The RC line has now diversified into multiple segments. This strategic approach to diversification, we feel, will reap dividends in 2019. We have launched innovative products in Girls with Owleez, in Pre-School with Demo Duke (phon), in the advanced technology area with the Air Hogs Upriser Motorcycle, licensed products with Monster Jam, and innovation with Zero Gravity Laser, all

providing the foundation for growth through a larger consumer base focused on both genders and a wide age group.

2019 marks the 11th year of our entertainment business having TV shows broadcast globally. We remain very focused on growing through multiple avenues, including our own proprietary shows, and through our willingness to partner with other content creators to build a portfolio of alliance brands.

As we shared with you, our goal is to turn PAW Patrol into a long-term, global evergreen franchise. And after five years, Spin Master is now recognized as one of the key global players in the licensed preschool space. PAW Patrol in 2018 in the US achieved the highest share in its category and was the number one preschool show for kids two to five.

In 2018, we introduced a new season of 52 episodes based on the Ultimate Rescue theme, which fit well with the tone and tenor of what PAW Patrol is all about. We also saw the first-ever launch of a 44-minute special movie where the pups had an opportunity to become superheroes, pushing the boundaries of character development and character aspiration. This enabled us to do a major movie exclusive with Walmart, driving incremental sales for not only toys, but for the licensing and merchandising franchise as a whole. 2018 also saw us making two-minute episodes for YouTube, which increased viewership, accessibility, and drove sales.

2019 and beyond will see the continued emphasis on expanding formats and themes. We will launch 52 episodes this year with some themed around Mighty PAW (sic) [Pups], building off the movie in the fall. And we believe the combination of classic PAW episodes, mixed with these dynamic themes and specific movies, is providing the platform for higher dual-gender engagement, multiple play patterns, and age group expansion. We continue to see the franchise resonate with kids from two all the

way to seven years old. The age expansion is a result of our team's ability to tell amazing stories through different themes.

2019 is a historic year for Spin Master in the Pre-School category, as PAW Patrol will be going on air in Japan in partnership with Takaratomy, TV Tokyo, and Dentsu. There has not been a North American preschool property launched in Japan in over 10 years, and we are very excited to gain a foothold in one of the best licensed preschool markets.

In the spirit of expanding formats in 2019, it will also see us begin the early stages of production for the first ever PAW Patrol theatrical film.

After many years of Abby Hatcher being in development, we are very pleased with how the show is resonating with both genders following its launch in January. Currently, the show is the number two rated show right after PAW Patrol. This is a first for Spin Master, as we now have the number one and number two rated preschool show on air.

Early reads indicate kids appreciating the aspirational nature of the show, and we feel that Abby Hatcher has the ability to resonate with kids globally. And we look forward to the global rollout as 2019 progresses. We are very excited about the GUND high-end Abby launch this fall, and look forward to the toy line hitting the shelves in the upcoming year.

In its formative years, Spin Master was known as a boy's action-focused company. For 2019, our boys area is anchored in three prominent properties: Bakugan, Monster Jam, and How to Train a (sic) [Your] Dragon, and a strong addition joining for 2020 with the DC Comics franchise. The boys action area highlights the diversity of both internally generated franchise along with allianced brands, giving us the broadest opportunity to design and develop toys for kids globally in multiple categories and genres.

Bakugan launched this January on Cartoon Network. After patiently waiting seven years for this relaunch, we were excited to launch Bakugan globally to a new generation of kids. Bakugan is a fusion between action figures, transformation, gameplay, and collectability. There is full retailer support and high engagement.

Throughout 2019, we will see month by month the global relaunch occurring, especially in Japan in April of this year through our partnership with Takaratomy and TV Tokyo. We are putting special focus on the launch of Bakugan in China, where we never captured any sales in our first launch, and will see this as a strategic opportunity to explore new, innovative models on how to maximize its potential. Later this year, we'll see Bakugan reach larger audiences on YouTube with full-length episodes and original YouTube content.

How to Train a (sic) [Your] Dragon. Universal's been able to create an exceptional film, outstanding distribution, a TV show, great marketing that is driving strong sales and demand for this franchise. Our relationship with Universal dates back all the way to 2010, and we are very pleased with how complementary this offering is. It is a great franchise to showcase our innovation. We're seeing a lot of excitement around How to Train a (sic) [Your] Dragon with live hatching using our technology platform behind Hatchimals.

As previously announced, we signed a 10-year long-term deal with Monster Jam to be their global partner. Our innovative product line hit shelves on January 1st, and we look forward to higher-price points items launching later in the year along with the basic diecast line. This new entry into the wheels category provides Spin Master a great opportunity for diversification and growth.

In December, we announced a significant multiyear deal with DC Comics and Warner Bros. for the DC characters, which will begin in January 2020. Our team is already developing an innovative, well-

priced, differentiated product line. It is an incredible testament to our team that Warner Bros. has entrusted us to bring to life the DC characters to kids around the world. We will work very hard to ensure the success of this long-term partnership.

Activities continues to provide Spin Master with solid diversification and steady revenue. We've been in the activity space for over 15 years, and have built a deep understanding for both the category and the customer, along with a strong pipeline of innovative products. The combination of our Cardinal acquisition and our own internal games group has elevated us to the number two position in the US, and we are also growing internationally. It has also provided us with the ability to enter into strategic partnerships with small game companies globally.

This is similar to our inventor model where small companies develop games, but require a strong distribution network to market their games. We see this as a powerful avenue for growth.

The GUND acquisition, which we made in Q2 2018, provides us with a meaningful platform to innovate and grow in the plush area, one of the largest categories in the toy industry. GUND has great growth potential driven by strong licensed support with key partners, such as Sesame Street and Pusheen. We announced last week the addition of Hilda, the award-winning animated series successfully airing on Netflix. GUND will also be supporting the high-end line of the Fuzzlies from our show Abby Hatcher, and is an amazing feeder platform for new and emerging entertainment franchises.

On the international front for GUND, we're working on a long-term plan to increase consumer engagement and distribution.

Lastly, we have an opportunity to dive deeper into the plush category with products for babies and infants under the Baby GUND brand. We believe that the high-quality brand perception will enable us to potentially stretch and grow the product line outside of plush.

Our philosophy is to continually seek great talent. For this reason, we have consolidated the GUND, Cardinal, and our LA-based games GBU into a new office called Spin Master East based in Long Island City, New York. Through the Cardinal acquisition, we already had an office in New York City. GUND was based one hour away in New Jersey. By consolidating the offices, we now have critical mass to build our presence in New York City in one integrated location.

By doing so, we have not only saved costs, but more importantly, we are now able to attract the best talent in plush and games and build creative energy in one location. New York is an incredible pull for talent, and we are already attracting high-quality talent unavailable anywhere else in the country.

With that, I'll now turn this over to Mark.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Thanks, Ronnen, and good morning, everyone. Before I begin, I wanted to officially welcome Sophia Bisoukis, who has just joined Spin Master as VP of Investor Relations.

We ended 2018 with a quarter of mixed financial performance in what was a challenging year for the industry. Against this backdrop and despite the impact that the industry-wide retail distribution had on our performance in the fourth quarter, we delivered both gross product sales and adjusted EBITDA growth for the full year in 2018.

Earlier this month, we released preliminary gross product sales results for the fourth quarter and full year 2018. Gross product sales decreased by 3.8 percent for the fourth quarter. In constant currency terms, gross product sales declined by 2.5 percent for the quarter. GUND contributed approximately $20 million to gross product sales in Q4.

TRU's liquidation had a significant impact on our gross product sales. In Q4 2017, we shipped approximately $53 million to TRU globally, of which $36 million was in the US compared to $8 million in Q4 2018, all of which was outside the US. The year-over-year decline in sales related to TRU was, therefore, $45 million in the quarter compared with our total gross product sales decline of about $18 million.

Despite the fourth quarter decline in gross product sales, our strong portfolio of brands allowed us to achieve an increase in gross product sales of 3.1 percent for the year.

Our fourth quarter revenue decreased 6 percent to $414.3 million from 440.9 million in 2017. Foreign exchange decreased overall revenue by 6.3 million. In constant currency terms, revenue declined by 4.6 percent. On a geographic basis, North America declined by 9.3 percent, while our global platform drove gross product sales growth of 7.2 percent in the rest of the world and 2.6 percent in Europe.

International gross product sales were 44.2 percent in the fourth quarter, increasing from 40.8 percent last year and continuing the steady progress we have made over the last few years.

Sales allowances as a percentage of gross product sales were 18.1 percent for the quarter, and our annual sales allowances as a percentage of gross product sales came in as expected at 11.6 percent, consistent with 2017. As noted previously, sales allowances are typically between 10 and 12 percent of annual gross product sales and are impacted by the timing of promotional and markdown spending, which resulted in a rate of 9.7 percent in Q3 and 18.1 percent in Q4.

Other revenue, which primarily reflects merchandising, royalty, and television distribution income from products marketed by third parties using our intellectual property, as well as app revenue from Toca Boca and Sago Mini, increased by over 10 percent for the quarter and 42 percent for the year.

This quarter, the driver of other revenue growth was television distribution income as we delivered shows including Abby Hatcher, PAW 5, Bakugan, and Rusty Rivets Season 2.

Gross profit for the quarter was 199 million, representing 48 percent of revenue compared with 228.9 million or 51.9 percent of revenue in Q4 2017. But the 390 basis point decrease in gross margin was largely driven by increased amortization of entertainment properties and high sales allowances, offset by higher other revenue.

Selling, general, and administrative expenses decreased 1.9 percent compared to the same period in the prior year. SG&A as a percentage of revenue for Q4 was 47.3 percent, an increase of 200 basis points, driven by higher distribution and administrative expenses, offset by lower selling expenses.

Distribution expenses were $4.5 million higher than last year and represented 5.4 percent of revenue compared to 4.1 percent. Higher distribution costs resulted primarily from onetime costs associated with the establishment of our new East Coast DC, a new DC in Hungary servicing Eastern Europe, and our new DC in Russia in anticipation of our January start-up. In addition, the volume decline in Q4 did not offset some of the fixed storage costs associated with our third-party warehouses, especially in the US.

Administrative expenses increased $6.1 million this quarter compared to the prior year. The increase was primarily attributable to higher restructuring costs and an increase in share-based compensation expense, partially offset by lower bad debt expenses related to the TRU bankruptcy. The restructuring expenses are related to streamlining our GUND, Cardinal, and LA games businesses, all of which have now been consolidated into one central office in New York, as Ronnen just described. This restructuring will yield benefits in 2019. Excluding these items, administrative expenses increased by $2.1 million.

Going forward, as we seek to continue to drive margin expansion, we are constantly looking at ways to modernize and optimize our global organization to increase operating leverage and momentum with our innovation process and our brands and franchises to position us for growth.

Net income for the quarter decreased by $8.6 million. Adjusted net income decreased by 19.4 million for the quarter to 6.1 million, due to lower gross profit offset by improved SG&A.

Adjusted EBITDA for the quarter decreased to 35.1 million compared to 47.3 million last year. Our adjusted EBITDA margin decreased by 220 basis points, mostly due to the decrease in gross margin I discussed earlier.

As a reminder for Q4, consistent with prior years, a significant portion of our annual marketing expense is incurred in Q4 each year to maximize the impact on consumer purchases and our ROI. This typically causes a misalignment of sales and marketing spending between Q4 and Q3, resulting in adjusted EBITDA margins in Q4 significantly below those in Q3.

Total net working capital as a percentage of revenue increased by 4.8 percent to 10.4 percent. This was primarily due to higher entertainment tax credit receivables and an increase in trade payables, offset by lower trade receivables and a decrease in inventory.

Other receivables mainly comprise tax credit receivables and are collectible on a 12- to 18-month cycle. The increase reflects the year-over-year increase in our entertainment deliveries.

Our core working capital comprising trade receivables, trade payables, and inventory declined from 15.2 percent of revenue in 2017 to 13.3 percent at the end of 2018, and we saw a year-over-year decline in days inventory on hand of over eight days.

Overall, our cash conversion cycle decreased by nearly 10 days to 37 days. Free cash flow was negative 11.5 million compared to 18.4 million last year. The decrease in free cash flow is attributable to lower cash flows from operating activities and higher cash flows used in investing activities.

Our balance sheet remains very strong, and we ended Q4 with $144 million in cash and no debt.

For the full year 2018, revenue increased 5.2 percent and gross product sales rose 3.1 percent over 2018. Excluding GUND, revenue and gross product sales increased slightly.

Europe was up 2 percent, with very strong sales contributions from some of our key European territories, such as Germany and Central Eastern Europe. The rest of the world was up 20 percent, driven by strength in Mexico, China, and Australia. For 2018, our total international sales represented 36.5 percent of total sales compared to 34.7 percent last year.

Total SG&A for 2018 was up 50.7 million year over year to 38.3 percent of revenue compared to 37 percent last year. Looking at the major components, marketing was up 25.5 million and administrative expenses were up 31 million. The increase was partially offset by a reduction in selling expenses of 17.5 million.

Excluding the impact of the TRU bad debt, restructuring costs, share-based compensation, as well as the GUND acquisition, our SG&A rate for 2018 was flat to 2017.

In 2018, we were able to grow adjusted EBITDA by 3.9 percent to 303.6 million from 292.2 million. We delivered adjusted EBITDA margin of 18.6 percent, slightly below 2017. The decline was mainly driven by higher marketing and distribution expenses, partially offset by lower selling expenses as a percentage of revenue.

I will conclude with our outlook for 2019. Our success through 2019 will be centred on continued strong execution against our four growth strategies. Our financial plan is focused on growing both gross product sales and adjusted EBITDA, while remaining committed to delivering shareholder value. We believe that the first half of 2019 will continue to be affected by the disruptions that occurred in 2018, but we remain confident that the industry will stabilize during 2019.

We remain committed to our long-term financial framework, which targets organic gross product sales growth of mid- to high-single digits.

In 2019 on a full year comparative basis, we expect our organic gross product sales growth rate to be in the low-single digit range over 2018. We expect the first half of 2019 to represent approximately 30 to 33 percent of full year gross product sales compared to over 34 percent in 2018.

Q1 is typically Spin Master's smallest sales quarter from a seasonality perspective. The first quarter of 2019 will be especially challenged due to the absence of TRU in Q1 2019 and the shift in the timing of Easter from the first quarter in 2018 into the second quarter of 2019.

In Q1 2018, our sales for TRU were $23 million. We expect the later timing of Easter will shift approximately $25 million of gross product sales from the first quarter to the second quarter.

Please note that GUND, which was acquired in Q2 2018, will provide some modest acquisition growth in Q1 2019. But as this is also GUND's smallest quarter from a seasonality perspective, the impact is expected to be immaterial overall. After Q1 2019, we will no longer break out GUND's gross product sales separately, and will report GUND as part of our Activities, Games & Puzzles and Plush business segment.

We expect our adjusted EBITDA margin in 2019 to be in line with the margin we achieved in 2018. We remain extremely focused on cost management and productivity initiatives.

To assist you with your models for 2019, we want to provide you with a few other details in our outlook. For the full year of 2019, we expect appreciation and amortization to be consistent with 2018, interest expense to improve slightly, a tax rate of between 26.5 percent and 27.5 percent, and capital expenditures of approximately 4.5 percent to 5 percent of revenue.

Finally, beginning January 2119 (sic) [2019], we will be implementing a new accounting standard, IFRS 16. IFRS 16 requires lessees to capitalize assets and liabilities for all leases greater than 12 months. In our case, the impact on our balance sheet will be the creation of a corresponding asset and liability of approximately $85 million.

In the P&L, there will be a reduction in rent and certain long-term IT commitments, which are currently reflected in administrative expenses, and a corresponding increase in depreciation and amortization and financing costs. This change will increase EBITDA and adjusted EBITDA. However, we do not expect IFRS 16 to materially impact net earnings.

As we will adopt the standard using the modified retrospective method, 2018 will not be restated to reflect the change. We are currently finalizing our analysis, and we will provide you with comparative 2018 amounts by quarter when we report Q1 2019.

With that, I will now turn it over to Ben.

Ben Gadbois — President and Chief Operating Officer, Spin Master Corp.

Thank you, Mark, and good morning. As mentioned by both Mark and Ronnen, 2018 was a disruptive year for the toy industry. Despite the backdrop of this challenging year, we delivered solid financial and operational results for the full year and demonstrated the underlying strength of our business.

Our performance in 2018 confirmed that our focus and strong execution against our four key growth strategies has positioned us to achieve long-term success. There were several factors and themes that influenced our performance in Q4 and 2018.

From an industry perspective, the performance of the US toy industry in Q4 ’18, according to NPD, was down just under 7 percent overall. For the year, the US toy industry was down 2 percent. Europe and Australia were down 4 percent and 7 percent, respectively. Latin American, on the other hand, showed 7 percent growth. Overall, G13 toy sales for 2018 were down 2 percent on average in 2018.

Despite this, we grew our gross product sales over 3 percent for the year, and we grew both our European and rest of the world markets.

TRU’s liquidation of over 700 stores in the US drove incremental sales through the first half of 2018. As we discussed in Q3, our expectations earlier in the year were that most key retailers would aggressively extend shelf space for toys to capture the TRU shares in the second half of ’18. We had initially expected this expansion to allow for between 80 and 90 percent of TRU’s business to be recaptured.

In Q3, we called this down to 70 to 80 percent range. We now believe that number was likely at or below the bottom end in that range. We believe this was primarily a result of significant pantry loading, whereby consumers took advantage of the TRU liquidation sales in Q2 ’18 and bought product that they might otherwise have bought later in the year, especially in Q4. As a reminder, TRU UK, France, and Australia also went bankrupt in 2018.

In early Q3, most key retailers announced plans for expanded shelf space or increased focus on toys to capture the TRU share. However, the amount of retail space actually added in the US and

elsewhere and the amount of inventory acquired by retailers was not nearly enough to fully capture the TRU shares. This was felt particularly in Q4.

In addition to the smaller shelf space expansion, many key toy retailers driven by caution as to where consumers might shop, set their shelves later in Q3 and Q4 to begin their holiday efforts.

Nontraditional toy retailers who were fighting to capture some of the TRU volume, such as department, discount, dollar, value, grocery, and convenience stores, purchased inventory late in October/November for retail set in November and December. These new retailers to the toy industry had mixed performance over the Christmas season carrying a new or broader range of toys and did not have a material impact on toy sales in the industry in Q4. They are, on average, carrying more inventory into Q1 than we expected.

We saw retailers focus on their supply chains and inventory velocity as a method of capturing TRU share. Because of existing retail space constraint, we saw further acceleration to higher frequency, more just-in-time deliveries, smaller shipment size, and less retailer inventory. With all this in mind, we were very focused on tightly managing distribution and inventory to minimize year-end inventory overage and keep a clean channel in order to start 2019 successfully.

I wanted to share with you some key POS data to put our Q4 and 2018 results into perspective. You have heard much discussion about TRU's impact, particularly in the US and 2018. From a POS perspective, the impact of TRU's exit was significant. In 2017, total Spin Master POS related to TRU was $218 million. Fifty-five percent, or over $120 million of our total 2017 TRU POS sales occurred in the last nine weeks of 2017.

For the reasons I have discussed earlier, TRU's demise had a significant impact on ours and the industry's Q4 and 2018 performance. For the year in the US, our POS declined 13 percent, while our

retail inventory was down 19 percent. During Q4, we aggressively reduced inventory where we felt we had too much in order to position us for a clean 2019 with high-quality inventory. Outside of the US, overall POS was up low-single digit with higher retail inventory.

In general, the European retail inventories was weak, especially in the UK and France. In some countries, however, especially Germany and Central and Eastern Europe, inventory was up but in anticipation for growth. In Mexico, for example, we built inventory a year in advance of the Three Kings' Day holiday, which occurs January 6th. Globally, our POS was down high-single digit and our retail inventory was down mid-single digit.

With regard to some of our key brands, PAW Patrol POS globally for the full year was down low-single digit, but in Q4 showed renewed strength. In the US, POS was up low-single digit and the total Pre-School category was down 5 percent for 2018. We managed PAW Patrol tighter than ever, and PAW Patrol USA inventory was down 34 percent at the end of 2018.

We continued to manage PAW Patrol inventory carefully in anticipation of the new Season 6 launch and market shelf switchover. So overall, PAW is doing well, healthier on inventory, and is set for a solid 2019.

Hatchimals performance is mixed. Big egg POS for the full year was down 62 percent. The big egg has slowed down, but this was expected and planned. Colleggtibles POS for full year was up, on the other hand, 37 percent and inventory was down 3 percent for the year. Our distribution is in a solid place, and our focus in 2019 is on tightly managing the launches of new seasons throughout the year with strong discipline.

In summary, from an inventory perspective, we feel we are well positioned for 2019, despite expected noise in the first half of 2019 as we comp TRU Q1 2018 shipments and the shift in the timing of Easter between Q1 and Q2.

Looking forward, we continue to see the need for distribution centres to be closer to our customers. This drives new requirements for our US supply chain. We shipped more product domestically in the second half of 2018 than we have historically, and we believe this trend will continue in 2019.

We are continuing to invest in refining our supply chain efficiencies as the market evolves, and have recently added an East Coast warehouse to better meet demand, shorten delivery time, and reduce the trucking mileage to our retailers' distribution centre.

We also added a DC to better position us to serve customers in Eastern Europe, which is growing at a rapid pace, and a new DC in Moscow to support our launch this year. All of these initiatives will make our assortment optimization more effective.

I would now like to briefly review our four growth strategies and provide you with an update on some of our 2019 key initiatives. Our success is a result of our strong execution against our growth strategies, which you are familiar with, and are underpinned by our key initiatives to continue building and innovating strong brands.

Our first growth strategy, focus on innovating our core product portfolio, relies on our ability to consistently infuse innovation into our brands and products. We enjoyed showing you our 2,000-product line at the New York Toy Fair a few weeks ago. We feel we have a very strong product offering in 2019.

We consistently discuss our internal 36-month brand innovation process, which facilitates the identification of market opportunity which we capitalize on through product development or through

acquisition. We view this process as an integral part to sustainable profitability. This process allows us to have visibility on each of our business segments, identify gaps, and act early.

We see the Activity, Games & Puzzles segment to continue to grow, driven by international expansion, new licences such as Frozen II and Toy Story 4, as well as continued innovation.

In the Remote Control and Interactive Character segment, Hatchimals Colleggtibles and Luvabella continue to drive growth. As you saw at the New York Toy Fair, we have some exciting innovations for 2019 in the interactive character area. In New York, we presented how we are innovating Hatchimals with Hatchiwow, and how we have integrated the underlying Hatchimal technology into other brands, such as How to Train Your Dragon with the hatching Toothless dragon, Seedling (phon), and other in other areas.

Hatchimals will continue to be a meaningful brand for us, but at a lower base than prior years. 2019 will see the launch of Juno, the most amazing, lovable, feisty elephant. Juno's a testament to the team and their ability to bring out fresh new characters year in and year out.

In Boys Action and High-Tech Construction, we have already seen an initial shipment of our three major Boys Action launch: DreamWorks Dragons, Monster Jam, and Bakugan. And we expect them to drive this segment in 2019.

Keep in mind, in 2019 with Bakugan, we're now selling at wholesale prices and controlling marketing in many key international markets where we now have our own offices compared to third-party distribution in 2018—in 2008 and 2011.

At the close of 2018, we were very excited to announce a three-year global licensing agreement with DC Entertainment. Beginning spring 2020, we will be the new master toy licensee for the boy's action category, remote control and robotic vehicles, water toys, and games and puzzles.

For generations, children around the world have been entertained and inspired by DC characters, home to the world's greatest superheroes. And in 2020, we will bring these characters to life. In addition to leveraging the DC Comics characters, we'll have the rights to develop toys based on future film, animation, and television projects. This iconic partnership strengthens our position in licensing, and will help to further grow and diversify our business.

The DC Entertainment agreement adds to Spin Master's strong portfolio of licensed products, including our 10-year licensing partnership with Feld Entertainment as the worldwide master toy partners of Monster Jam trucks. Sales of this line kicked off in January. Our innovation and success is being recognized in the industry with Kidscreen naming Spin Master #1 in licensing on the 2018 Hot 50 Companies ranking.

In the Pre-School and Girls segment, we were encouraged by the higher sales of PAW Patrol in the fourth quarter, which drove growth in the segment for the year. For 2018, PAW POS was down, in line with the decline in the overall toy industry in the US.

The fresh theme and innovative products are working. According to NPD, PAW Patrol is the number seven overall property in the toy industry, and the Ultimate Rescue Fire Truck! won a Toy of the Year award in the vehicle category.

Looking forward, the theme and product line for 2019 will be one of the strongest we have created. We are managing PAW Patrol with a 20-year vision. While it is unlikely that PAW Patrol will continue to grow at the same rate it has historically, it is a very valuable evergreen franchise that we will continue to invest in and support with innovative toys and entertainment, as previously mentioned. This includes traditional TV, an annual one-hour TV specials every year, and new short-form content for YouTube.

In addition to PAW, we saw growth in Twisty Petz, which continued to do very well globally. We will build on this growth in 2019.

In Outdoor, the acquisition of Swimways in 2016 has provided us an avenue of diversification into the swimming and outdoor category. After spending time learning this category and the consumer's mind-set, the internal innovation and inventor network is generating innovation. We will start to see this reflected in the 2019 line and beyond.

The infant Spring Float is one of the most trusted products for parents to use in the pool. This is another touch point for us in baby and infant. We see this, along with Baby GUND, giving us critical mass to go much deeper in this segment.

Our second growth strategy is to significantly increase our international sales, and we are on track to reach our medium-term goal to achieve 40 percent of our international sales.

Third, we continue to develop evergreen global entertainment properties. Our entertainment and brand teams work closely together integrating the show and the toy line to deliver innovative toy ideas that translates on screen, on shelves, and at home.

PAW Patrol, Bakugan, and Abby Hatcher are all great examples of the fusion of storytelling and toy design. We are introducing themes that are timed to the delivery of our product line. This ensures that the new product on retailers' shelves and the new episodes on air are closely linked in both themes and content.

And our final growth strategy is a focus on driving growth through strategic acquisitions. We have demonstrated success in acquiring, integrating, and innovating strategic businesses. Our global scale, strong balance sheet, and financial flexibility positions us to capitalize on opportunities with the right strategic fit. We have a healthy pipeline of acquisition opportunities currently.

In 2019, we plan to on reinvesting most of the saving from our restructuring and cost-containment efforts into further growing our R&D and innovation capabilities. In addition, we plan on enhancing our go-to-market strategy for the online channel and franchise management, as well as improving our information system and data analysis capabilities to reduce non-value-add activities and improve management decision-making.

As Mark discussed in the outlook earlier, we expect the first half of 2019 to be challenging caused by the disruptions of TRU and general economic weakness in the UK and France. Beyond the first half of 2019, we see the industry returning to normality. We believe that by the second half of the year, our customer base will have taken the necessary steps to build a supply chain and retail infrastructure necessary to recapture most of TRU's volume and return the industry to a path of greater stability and growth.

To conclude, we are confident in our ability to build on the strong and focused platform we have established. Overall, we are incredibly proud of the effort and results that our employees have delivered by executing on our growth pillars despite the short-term headwinds we just discussed.

We remain very focused on executing our four key growth strategies at every level of the business globally, and we'll be using our result-driven, high-performance culture to continue to drive value.

Ronnen, Mark, and I are now pleased to take questions. Operator, please open the line.

Q&A

Operator

Thank you. And as a reminder, if you do want to ask a question, just press *, then the number 1 on your telephone keypad.

Your first question comes from Sabahat Khan of RBC Capital Markets. Please go ahead.

Sabahat Khan — RBC Capital Markets

Thanks. As you talk about the seasonality over the course of the year, can you maybe also talk about how you expect some of the new product introductions to roll out? Are they also weighted more toward Q3 and Q4? I'm thinking more the Bakugan and some of the new products that you showed earlier this year. Are they also weighted towards H2?

Ben Gadbois

Good morning, Saba. So it's a mixed bag in terms of how we're doing our launches here. So for example, we already launched Monster Jam, How to Train Your Dragon. We have done limited release of Bakugan already, mainly in North America. A lot of the new products I just mentioned and that you've seen in New York, other than the ones we mentioned, will launch in the fall.

So keep in mind, most every year most of our significant launch comes in Q3 and Q4, which is obviously where the seasonality of the industry is heavier.

Sabahat Khan

And just a follow-up there is so I guess you provided seasonality in the gross product sales line, but with some of the sales kind of shifting around a little bit, how should we think about the adjusted EBITDA seasonality for kind of halves this year versus last year?

Mark Segal

Yeah. So, Saba, we typically don't give guidance on adjusted EBITDA margins by season. But it will typically follow the sales. But we're not giving H1, H2 adjusted EBITDA margin guidance; only annual.

Sabahat Khan

Okay. And then I guess just directionally speaking, last year you indicated that the bigger two platforms are each about 20 to 25 percent of sales. How should we—like I guess how should we think about that for this year? Is there any commentary you can provide directionally by segment at all?

Mark Segal

Yeah. So historically, Saba, we've always given the single largest item for the year in terms of percentage of sales. And for quite some time now, for three or four years at least, it's been PAW Patrol at around 25 percent. And we see that as consistent for 2019. Hatchimals is obviously a significant property and it has been. We don't break it out. But it will decline in 2019, but it will obviously still be a part of our line, as you saw in New York.

Ben Gadbois

Yeah. I think the most important point to make is we know that obviously PAW Patrol is significant for the Company, so has Hatchimals. And we love both these franchise, and both of these franchise will continue to be strong. Hatchimals will not continue at the peak that we have all seen. Nonetheless, we see Hatchimals as a significant brand for the future.

The brand awareness, the play pattern continues to resonate extremely well. You've seen in New York the innovations that we're driving not only in '19, but there's a lot more coming in the future years around the Hatchimals brand. So Hatchimals will continue to be an important part of our portfolio.

Sabahat Khan

Okay. And then just one last one for me. Some of this supply chain capacity that you're talking about adding, is that still all going to be kind of third-party source? Or are you looking to invest in some of that capacity as well?

Mark Segal

So all of our distribution capacity and supply chain capacity is on a variable basis, Saba. We don't own any of our own warehouses; we don't own any of our own manufacturing facilities. So it's all third party.

Sabahat Khan

All right. Thank you.

Operator

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

Brian Morrison — TD Securities

Good morning. Hello?

Ronnen Harary

Hey, Brian.

Ben Gadbois

Morning, Brian.

Mark Segal

Morning, Brian.

Brian Morrison

Sorry, guys. Hey, Mark, I'm looking at your guide and what factors into the compilation. Despite having a slow start anticipated, you've obviously got a pretty good track record for guidance and a sound pipeline strategy. But is there some sort of order intake or commitment metrics from the recent shows that gives us a level of comfort on your guide? Anything you can share what goes into your compilation would be appreciated.

Mark Segal

Brian, are you specifically talking to the entertainment area? Is that what you're referring to?

Brian Morrison

No, I'm talking about your overall guide with respect to top-line low-single digits.

Mark Segal

I think just given the year we had in 2018 and the uncertainty around Toys "R" Us, Brian, we've taken a conservative tone for 2019. And as the year evolves, as we always do, every quarter we will take a look at our guidance and we'll tweak it for the year if we need to. But at this point in the cycle, just given everything that's happened and continues to happen as we've discussed in our script just now, we wanted to take a conservative tone for 2019.

Brian Morrison

Yeah—

Ben Gadbois

Yeah. I think just—

Brian Morrison

Sorry, go ahead.

Ben Gadbois

I'm sorry, Brian, just to add to what Mark has just said is that we still see a lot of the 2018 issues that we've all faced as residual issues heading into 2019; the first half obviously driven by the TRU bankruptcy. We still see weaknesses for now in the UK and France. So this is why we want to be very conservative in how we look at the first half of 2019, just because everyone in the industry

underestimated the impact in 2018, and now we have enough data that we can actually create internal algorithms to kind of have a better feel for how the spread will be between the year.

With that said, I think that we are very pleased. Like we talked, you heard Ronnen and myself talk about the launch of Monster Jam, How to Train Your Dragon; we now have Bakugan in limited release around the world; and we have obviously a lot of different properties. Our POS is very strong, but we have very strong POS in a difficult economical environment, which is why we're cautious with our guidance at this point.

Brian Morrison

Yeah. No, I appreciate that. I think it's the right strategy. I just wondered what the data is that you take into consideration when you compile that top-line forecast?

Mark Segal

Well, we actually do a bottom-up view of the business, Brian, from around the world. We do it regionally; we do it by product; we run our forward-looking brand innovation pipeline; we translate that into shorter-term forecasts; and then we risk adjust it based on how we're feeling for all the factors that both myself and Ben just described.

So it's really a risk-adjusted view of the world, recognizing that the seasonality of our business is H2-weighted, and so that we don't have actual data on what the orders are going to look like for the second half of the year well into the second quarter. And so we have to take a view that takes all of that into account when we formulate our guidance in March.

Brian Morrison

Okay. Ben, follow-up question on your inventory. I apologize because you said a lot there, but inventory and finished goods down about 10 percent. Everything looks and sounds pretty clean; largely relates to PAW Patrol being run very tight. Is that correct?

And then secondly, on your inventory in the North American channels, the retail channels, any brand or segment that needs work? Or you're pretty comfortable at this time?

Ben Gadbois

No, I think despite the headwind that the whole industry faced in Q4, I think we took some fairly conservative—actually, we were conservative in our shipments to the marketplace. I think we landed our inventory where we wanted to land. So for example, in the US our POS was down 13 percent, but our retail inventory is down 19 percent. But what that number also does not factor in, Brian, is that we're significantly lower on PAW Patrol because we know we want to really do a shift over to Season 6 very, very clean across all the retail. So we manage the inventory very tightly.

We also had to ship some Monster Jam, How to Train Your Dragon, and Bakugan for January set, so if you actually even reduce these January set launch, our inventory would be down even more. So overall, we're pleased with where our retail inventory is in the marketplace.

Brian Morrison

Great. And then last question, if I can. You peaked my interest when you said you've got a healthy pipeline of acquisition opportunities. I'm just wondering, would you characterize these—I know you're not going to go into much detail—but would you characterize these as small bolt-on? Or do you have the potential of size such as Cardinal, Swim, or even GUND?

Ben Gadbois

Okay. Well, I think, Brian, we're looking at anything that is small, medium. And as you know and we've talked in New York, is we have a very healthy balance sheet. So we remain very strategic in terms of any acquisition that we pursue needs to make sure that we create value for the Company long term; needs to be some—needs to be either new product category or something that we can really drive growth, value, margin expansion, global expansion.

So it can be all of the above, Brian. And we see right now there's a good pipeline in front of us.

Brian Morrison

Appreciate the colour.

Operator

And your next question comes from James Allison at Barclays. Please go ahead.

James Allison — Barclays

Good morning. I just wanted to readdress guidance maybe a slightly different way. To your ability you can answer this question, how much of your low-single digit growth guidance will be supported by your less volatile line by Games & Puzzles? And how much of it is dependent on your shorter life-cycle products like How to Train Your Dragon licensed product?

Mark Segal

Yeah. So, James, at this point, we're not going to get anywhere that close to granular on our overall guidance. We don't break it down in that kind of detail. We obviously have the data internally, but as the year progresses we'll give you more flavour for that as it evolves. But at this point we're not going to break that guidance down.

Ben, you want to add something?

Ben Gadbois

Yeah. James, just to add to what Mark just said is, I think one thing that continued to be really important for us is is that 36-month brand innovation pipeline where you can see all—you can see certain mix of our total sales for brands in any given year, and these mix along the next three years will change year by year. And you'll see some of these brands get bigger, some of these brands get smaller, and new innovation come in.

So we manage this process very, very tightly. And this is really, really important for us in terms of not just how we look at the business for the future, but on any given current year we're also able to really have a pretty good view on how the business will come for the current year, but we don't measure it with what is like more of a long-term brand versus a newer one because every year it changes for us.

James Allison

Okay. Got it. And just turning to international expansion plans for 2019, do you see an opportunity to convert new markets to direct sales in the near term? Or is it more focused on deepening your relationships in markets where you kind of recently converted? Is it in fact more about deep—like can you talk about which core properties you've yet to introduce into larger markets like China, Japan, and Russia?

Ben Gadbois

Yeah. I think it's all of the above. But like if you just go back a couple years, as you know, we've launched Australia. We've launched Central and Eastern Europe. We've launched in China. So we're very focused in growing these markets. We now just recently announced Russia. We're going direct in Greece and in Austria and Switzerland. And despite all of this is we have a tremendous amount of opportunities to go deeper in all of these market that we just recently launched. But furthermore in the markets where we are already established, like Mexico, Germany, and France and UK, we still have a significantly

smaller market share than we have in North America. So there's a lot of growth opportunities in these markets as well.

As an example, in 2018, you saw Germany and Mexico having like incredible years for us. And they're markets that we've had for a while. So we have plentiful of opportunities where we already are. And we'll continue looking at new markets, but for the time being we have a lot of opportunities where we already are.

James Allison

Okay. Great. Thank you so much.

Operator

And your next question comes from Stephanie Wissink from Jefferies. Please go ahead.

Stephanie Wissink — Jefferies

Thanks. Good morning, everyone, and apologize for the scratchy voice.

Ronnen Harary

That's okay.

Stephanie Wissink

One question we wanted to understand is just how your channel strategy has developed, especially in the absence of Toys "R" Us? The value, dollar store, grocery, convenience, was that an area that you expanded into in the fourth quarter? And should we think about that as an area of opportunity in 2019?

Ben Gadbois

Yeah. I think what we're actually seeing is … I mean, first on a macro standpoint, Stephanie, we're definitely seeing the e-commerce and mobile commerce continuing to grow. So in 2018, we saw

the overall e-commerce channel growing 10 percent. We've also grown our e-commerce approximately 10 percent in line with the industry. But I think there's new ways to buy products that are emerging.

So everyone is more familiar, for example, on mobile commerce and you see more and more on Instagram and such platforms. So I think that we continue to say that we are agnostic to the channel. We really, really want to be and delight consumers where they want us to be and where they want to shop. And we will continue to evolve our focus and not only just how we sell the products, but how we market to our consumers according to where consumers are.

Stephanie Wissink

Okay. That's helpful. And then I wanted to follow up on Hatchimals because I think we're all very focused on the brand itself, but as you mentioned, you've transposed that utility to other properties, like How you (sic) [to] Train Your Dragon and even in the Girls division. So can you talk more holistically about that investment in that technology? If you were to add up the ways that you've extended that utility, is that utility actually still growing, but it's just the Hatchimals-designated brand that's actually declining?

Ronnen Harary

I think it's—it's Ronnen here. It's nice Mark and Ben gave me an opportunity to chat. I think you'll see the technology evolve, actually. Looking into 2020 into our line, I think you need to think about Hatchimals, the large egg and the actual mechanical and interactive hatching, as a much broader play pattern. And we'll be bringing stuff out that you guys have never thought about or seen before. And potentially that could be applied across other categories and other brands—I mean other segments or licences.

And then with the small Colleggtibles eggs, there's just an opportunity with the brand awareness that continues to innovate around our brand. And I think that's the most magical thing you want as a kids entertainment company. You want a brand that you can innovate and ideate around, where you don't have to build awareness from scratch. And I think that's the powerful thing that we have in our hands. And it's our job to be creative and constantly bring innovative product to market in both the lower end and the Colleggtibles and the eggs and in the higher mechanical surprise hatching. And so I think you guys, when you come to the show next year, you'll see some really different things that you didn't see this year.

Mark Segal

Just a time check. We have about five minutes left at most here, so one or two more questions.

Sorry, Steph, go ahead. Did you a follow-up?

Stephanie Wissink

Oh, I do have one just housekeeping for you, Mark, on IFRS 16. Did you factor that into your adjusted EBITDA guidance that you gave? I think you mentioned D&A would be relatively consistent with 2018, but then you mentioned the implementation of IFRS 16 would actually raise your D&A? I just want to make sure—

Mark Segal

Yeah.

Stephanie Wissink

—we're squaring off?

Mark Segal

I assumed when we gave our guidance that that would be on the same basis. So what we're going to do is in Q1, Steph, we're going to lay it all out very clearly just so that we can actually translate '18 adjusted EBITDA into IFRS 16 terms, and then obviously we'll do the same for 2019. But it's on a like-for-like basis at this point.

Stephanie Wissink

Okay. Thank you.

Operator

And your next question comes from Kenric Tyghe from Raymond James. Please go ahead.

Kenric Tyghe — Raymond James

Thank you. Good morning. Mark, could you speak to your promotional activity and markdowns? Where they broad based across category or heavily concentrated in specific categories? And I guess the follow-on to that would also be historically a 10 to 12 percent range. Given the market dynamics you guys are laying out, is that a reasonable range on allowances to expect this year? Or should we expect elevated in first half, normalize in second half?

Mark Segal

Hi, Kenric. Thanks. Just in terms of our Q4 activities, I would say it was across categories when needed. Ben in his script and in his questions afterwards has talked a lot about retail inventory. We took a very careful focus in Q4 on not only retail inventory, but also our own inventory. And we wanted to make sure that the channel was clean and that our warehouses were clean so that it didn't impact 2019.

And so for that reason you saw some elevated promotional spend; you saw some elevated markdown spend. And it was all in the context of a tough retail environment. And so that's why you saw that increase.

I think for the year we came in in line with expectations and in line with last year. And I think for your models going forward, we're comfortable that the range of 10 to 12 percent is still a reasonable range for you to be thinking about for sales allowances.

Kenric Tyghe

Great. Thanks, Mark. And a quick one for Ben. There's a lot of discussion on the market dynamic, the Toys "R" Us disruption. But certainly both for you and your peers, the tail on that disruption is a lot longer than it was three or six months ago. Can you just speak to what the dynamic is there? Is it sort of other brick-and-mortar retailers taking longer to get their houses in order? Is there some other issue that we need to be thinking about as we look to 2019? Because this seems to be a tail that just doesn't want to die.

Ben Gadbois

Yeah. I think, Kenric, look, the good news, okay, that is 100 percent certain is in the back half of this year we're a comping world where Toys "R" Us did not exist, okay? So this is why I think you're hearing from us and a lot of our peers that we're much more positive about the second half of the year.

I think what's actually happening is there's a few things that happened that were interesting is that as Toys "R" Us closed—let's just focus on the US, forget about the other countries—but they closed 700 stores, which were very large footprint stores. That volume then had to move through obviously the existing structure that was already in place, which did not necessarily significantly increase that retail space. So most of the product line from us and our competitors that ended up at retail were not as wide, number one, and then number two, the price points were different. So Toys "R" Us, for example, at higher retail price point than most of the other retailers in the marketplace, and that also created some negative pressure that I think was stronger than most folks expected.

So as far as what’s happening and why there’s a longer tail, I think we’re all very shocked and disappointed with how long it’s taking for the industry to normalize itself. But at this point, I think this is why we’re all saying that we’ll continue to see some disruption in the first half. And then after obviously Q2 when all the heavy and aggressive liquidation happens in Toys “R” Us, then the market goes back to normal because there was no Toys “R” Us in the back half of 2018.

Kenric Tyghe

Great. Thank you, Ben. And just a very quick one, a final one for me on Abby Hatcher, Ronnen. And obviously a good news story that it’s the number two in preschool and girls. Can you speak to your thinking or confidence around being able to sort of further monetize the Abby Hatcher franchise? I realize it’s very early days, but could you just give us some colour there on your thinking and moving Abby Hatcher into from where it is today?

Ronnen Harary

Yeah. Well, I think that the most important thing is first that the story and characters are resonating with the kids. So that’s the first bit of good news, and it’s a good indication to build on. What we need to do now is we need to watch very closely to make sure that when we actually put product into the marketplace, there’s the right amount of awareness for the property. And the amount of time to wait now is changing from the past because a lot of the linear networks their reach has gone down. And the reach in terms of broadcast has now spread to SVOD—it’s sort of spread to SVOD, which is things like Netflix; or AVOD, which is YouTube; and then you have linear, which is Nickelodeon and Cartoon.

So our job is to make sure that when we get product out to the marketplace that there's that right amount of awareness and the ability for the kids to be able to view Abby Hatcher on all platforms. And that's what we're very focused on.

So I'm giving you a bit of insight into the industry and what's happening. So we're very focused on the reach, and at the right time we will put the product then into the marketplace. And then it's also the dynamics of what's the right way to do. Do you lead with the plush? Or do you lead with the toys? Do you lead with the t-shirts? Do you lead with apparel? And so we're working very closely with Nickelodeon to craft that strategy right now.

Both Nickelodeon and Spin Master is very, very focused on Abby Hatcher crafting the strategy and making sure that we come out to the marketplace with the retailers with the retail support to make sure that we have a successful launch.

Mark Segal

I think we're going to have time for one more question, Operator.

Operator

Our final question will come from Gerrick Johnson of BMO Capital Markets. Please go ahead.

Gerrick Johnson — BMO Capital Markets

Hey. Good morning. I have several actually. So first, other revenue outperformed gross product sales, but at the same time that growth rate decelerated sequentially. So how should we think about that line for 2019 and the phasing of that other revenue?

Mark Segal

Well, other revenue, Gerrick, is a combination of various different components. We have licensing and merchandising; we have TV distribution income; we have app revenue. So it's a combination of all of those. And really it's a function of the underlying properties.

We don't give specific guidance on the other revenue line. There's also the corresponding offset to other revenue through depreciation and amortization, which actually was dilutive in Q4; unusually actually for us in the quarter.

But I think you should think about it roughly in terms that are consistent to 2018 for the moment.

Gerrick Johnson

Okay. And then can you talk about the amortization on entertainment properties? That had a detrimental effect on gross margin. So was there any acceleration of amortization there? Anything lumpy in there?

Mark Segal

Okay. So let me explain this to you because there's a lot of confusion out there, and I want to go over this again. And basically the way it works is when we build our entertainment shows, we actually capitalize there. It goes through CapEx and it sits on our balance sheet. Then when we deliver it, when we deliver the show, we amortize it against the income that we receive from the delivery.

Now in Q4, we actually had a large number of deliveries. We had Abby Hatcher; we had Bakugan; we had PAW 5; we had Rusty Rivets too; and we actually had a show that we haven't talked about very much called Super Dino, which was somewhat dilutive.

But let me just segue to Ronnen for one second on Super Dino to give you a little bit more colour, and then I'll wrap it up.

Ronnen Harary

Yeah. So on Super Dino, that's a boys action show that we spent 2017 and '18 developing the show, and animating, and bringing it to market. And it's one of those show that's been disappointing for Spin Master, whereby we weren't able to get a global broadcaster onboard, and as a result what we're having to do now is to sell it country by country and roll it out much slower than what we've done with things like Abby, PAW, and Rusty and Bakugan.

But we are very focused on rolling it out country by country and building it up slowly over time.

Mark Segal

Right. So, Gerrick, so the issue in Q4 that arose is that when we—we have an accounting policy that is very conservative, and that is when we make a delivery of a show we actually take the full cost of that episode against the show. So if we delivered one episode of, say, Super Dino to one country, we took the full cost of the show against that episode. And so that's why you saw dilution in gross margin in Q4 as a result of depreciation and amortization.

Now the good news is that as we sell these shows around the world and we actually generate the income, that cost effectively has already been taken. So we've taken a conservative view of how we amortize our entertainment. And that was a part of the dynamic in Q4 that you saw with gross margin compression. It wasn't only sales allowances.

I hope that clarifies it for you.

Gerrick Johnson

That's great. Thanks, Mark. Appreciate it.

Mark Segal

Okay. I think we're going to have to wrap it up at that point, Operator. Thank you. I know we've gone over time, but I think it was important to do so. So thank you very much everyone; much appreciated.

And we'll talk to you again in May with our Q1.

Ben Gadbois

Thanks, everyone.

Ronnen Harary

Thank you.

Operator

And this does conclude today's conference call. You may now disconnect.