

# **Spin Master Corp.**

Condensed consolidated interim financial statements (unaudited)

For the three months ended March 31, 2020 and March 31, 2019

# Spin Master Corp.

## Condensed consolidated interim statements of financial position

(Unaudited, in US\$ millions)	Notes	Mar 31, 2020	Dec 31, 2019
<b>Assets</b>			
Current assets			
Cash		424.0	115.3
Trade receivables	7	202.1	370.7
Other receivables	7	54.7	57.0
Inventories	8	155.9	185.3
Advances on royalties		14.4	18.0
Prepaid expenses		10.6	14.4
		<b>861.7</b>	<b>760.7</b>
Non-current assets			
Intangible assets	10	179.0	182.4
Goodwill	11	136.3	138.8
Right-of-use assets		71.9	78.3
Property, plant and equipment	9	58.8	66.8
Deferred income tax assets	6	88.9	26.2
Advances on royalties		3.2	3.2
		<b>538.1</b>	<b>495.7</b>
<b>Total assets</b>		<b>1,399.8</b>	<b>1,256.4</b>
<b>Liabilities</b>			
Current liabilities			
Trade payables and accrued liabilities	12	202.0	345.6
Loans and borrowings	13	349.2	—
Contract liabilities	12	4.6	7.6
Provisions and contingent liabilities	14	20.8	26.2
Income tax payable	6	12.7	4.5
Lease liabilities		13.7	15.1
		<b>603.0</b>	<b>399.0</b>
Non-current liabilities			
Provisions and contingent liabilities	14	8.8	9.0
Deferred income tax liabilities	6	18.6	20.4
Lease liabilities		63.0	67.6
		<b>90.4</b>	<b>97.0</b>
<b>Total liabilities</b>		<b>693.4</b>	<b>496.0</b>
<b>Shareholders' equity</b>			
Share capital	15	719.4	714.5
Accumulated deficit		(54.8)	(28.1)
Contributed surplus		33.4	35.8
Accumulated other comprehensive income		8.4	38.2
<b>Total shareholders' equity</b>		<b>706.4</b>	<b>760.4</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,399.8</b>	<b>1,256.4</b>

Approved by the Board of Directors on May 6, 2020.

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

# Spin Master Corp.

## Condensed consolidated interim statements of earnings and comprehensive income

### For the three months ended March 31

(Unaudited, in US\$ millions, except earnings per share)

	Notes	2020	2019
Revenue	3	227.3	239.0
Cost of sales		136.5	131.3
<b>Gross profit</b>		<b>90.8</b>	<b>107.7</b>
Expenses			
Selling, marketing, distribution and product development	5	80.9	61.0
Administrative expenses	5	65.7	59.3
Depreciation and amortization expenses	5	9.2	6.9
Other income		(1.4)	(0.1)
Foreign exchange loss		8.5	6.4
Finance costs	4	2.8	2.7
<b>Loss before income tax recovery</b>		<b>(74.9)</b>	<b>(28.5)</b>
Income tax recovery	6	(48.2)	(7.6)
<b>Net loss</b>		<b>(26.7)</b>	<b>(20.9)</b>
<b>Earnings per share</b>			
Basic and diluted	16	(0.26)	(0.21)

(Unaudited, in US\$ millions, except earnings per share)

	2020	2019
Net loss	(26.7)	(20.9)
<b>Items that may be subsequently reclassified to net income</b>		
Foreign currency translation (loss) gain on foreign operations	(29.8)	11.1
<b>Other comprehensive (loss) income</b>	<b>(29.8)</b>	<b>11.1</b>
<b>Total comprehensive loss</b>	<b>(56.5)</b>	<b>(9.8)</b>

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

# Spin Master Corp.

## Condensed consolidated interim statements of changes in shareholders' equity

(Unaudited, in US\$ millions)	Note	Share capital	Accumulated deficit	Contributed surplus	Accumulated other comprehensive income	Total
<b>January 1, 2019</b>		<b>694.1</b>	<b>(92.4)</b>	<b>40.9</b>	<b>19.9</b>	<b>662.5</b>
Net loss		—	(20.9)	—	—	(20.9)
Other comprehensive income, net of tax		—	—	—	11.1	11.1
Share-based compensation	15	—	—	4.4	—	4.4
<b>March 31, 2019</b>		<b>694.1</b>	<b>(113.3)</b>	<b>45.3</b>	<b>31.0</b>	<b>657.1</b>
<b>January 1, 2020</b>		<b>714.5</b>	<b>(28.1)</b>	<b>35.8</b>	<b>38.2</b>	<b>760.4</b>
Net loss		—	(26.7)	—	—	(26.7)
Other comprehensive loss		—	—	—	(29.8)	(29.8)
Cancellation of common shares	15	(1.1)	—	—	—	(1.1)
Share-based compensation	15	—	—	3.6	—	3.6
Shares released from equity participation		3.9	—	(3.9)	—	—
Shares issued upon settlement of LTIP	15	2.1	—	(2.1)	—	—
<b>March 31, 2020</b>		<b>719.4</b>	<b>(54.8)</b>	<b>33.4</b>	<b>8.4</b>	<b>706.4</b>

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

# Spin Master Corp.

## Condensed consolidated interim statements of cash flows

For the three months ended March 31  
(Unaudited, in US\$ millions)

	Notes	2020	2019
<b>Operating activities</b>			
Net loss		(26.7)	(20.9)
Adjustments to reconcile net income to cash provided by operating activities			
Income tax recovery	6	(48.2)	(7.6)
Interest income	4	—	(0.5)
Depreciation and amortization	5	23.3	21.4
Accretion expense - lease liabilities	4	1.2	1.1
Accretion expense - other	4	0.3	0.5
Amortization of financing costs	4	0.1	0.2
Share-based compensation expense	15	3.6	4.4
Net change in non-cash working capital	17	47.1	12.1
Net change in provisions and contingent consideration liabilities		(0.2)	(0.1)
Income taxes paid		(9.5)	(16.7)
Interest received (paid)		0.2	(0.1)
<b>Cash used in operating activities</b>		<b>(8.8)</b>	<b>(6.2)</b>
<b>Investing activities</b>			
Investment in property, plant and equipment	9	(3.2)	(7.6)
Investment in intangible assets	10	(15.8)	(14.0)
<b>Cash used in investing activities</b>		<b>(19.0)</b>	<b>(21.6)</b>
<b>Financing activities</b>			
Proceeds from loans and borrowings	13	350.0	—
Payment of lease liabilities		(3.9)	(3.2)
Cancellation of common shares	15	(1.1)	—
<b>Cash provided by (used in) financing activities</b>		<b>345.0</b>	<b>(3.2)</b>
<b>Effect of foreign currency exchange rate changes on cash</b>		<b>(8.5)</b>	<b>1.3</b>
<b>Net increase (decrease) in cash during the period</b>		<b>308.7</b>	<b>(29.7)</b>
Cash, beginning of period		115.3	143.5
<b>Cash, end of period</b>		<b>424.0</b>	<b>113.8</b>

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

## 1. Description of business

Spin Master Corp., (the “Company”) was incorporated on June 9, 2004, under the laws of the Province of Ontario, Canada. The Company is a children’s entertainment company that creates, designs, manufactures and markets a diversified portfolio of innovative toys, games, products and entertainment properties. The Company is driven by a desire to challenge and expand traditional play patterns through the creation of innovative products, entertainment and digital content. The Company’s headquarters is located at 225 King Street West, Suite 200, Toronto, Canada, M5V 3M2.

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 20). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Russia and Greece. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia and Mexico, as well as all other areas of the world serviced by the Company’s distribution network.

## 2. Summary of significant accounting policies

### (A) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the preparation of the Company’s consolidated financial statements for the year ended December 31, 2019, except for the impact of the adoption of the Standards and Interpretations described below.

These condensed consolidated interim financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors of the Company on May 6, 2020.

### (B) Basis of preparation

These condensed consolidated interim financial statements include the accounts of Spin Master Corp. and its subsidiaries and should be read in conjunction with the Company’s consolidated financial statements, including the notes thereto, for the year ended December 31, 2019.

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic, which has resulted in governments worldwide enacting emergency measures to combat the spread of the pandemic. These measures have caused disruption to businesses globally resulting in an economic slowdown which may impact demand for the Company’s products.

In preparing the Company’s condensed consolidated interim financial statements for the three months ended March 31, 2020, the Company has applied the significant accounting judgments and estimates, disclosed in Note 3 of its audited consolidated financial statements for the year ended December 31, 2019.

### (C) Functional and presentation currency

These condensed consolidated interim financial statements are presented in United States dollars (“US\$”), which is the Company’s presentation currency; however, the functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries is typically the economic currency in the associated jurisdiction. At March 31, 2020 and 2019, the functional currencies of the Company’s subsidiaries included the Canadian dollar, the Euro, the Great Britain pound, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Vietnamese dong, the Japanese yen, the Swedish krona, the Australian dollar, the Indian rupee, Polish zloty, and the Russian ruble. All financial information presented in US\$ has been rounded to the nearest hundred thousand, except as otherwise indicated.

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 3. Revenue

The Company earns revenue from the following primary sources:

- Sales of toys and related products; and
- Royalties and licensing fees earned for the use of intellectual property, application revenues and the distribution of television programs (“Other revenue”)

(US\$ millions)	2020	2019
Revenue from sale of goods	205.4	210.1
Other revenue	21.9	28.9
<b>Revenue</b>	<b>227.3</b>	<b>239.0</b>

Sales of toys and related products are seasonal. The majority of the Company's sales occur in the third and fourth quarters of the fiscal year. Generally, the first and second quarters are the periods with the lowest shipments and revenues in the toy industry.

## 4. Finance costs

(US\$ millions)	2020	2019
Bank fees	1.2	1.4
Accretion expense - lease liabilities	1.2	1.1
Accretion expense - other	0.3	0.5
Amortization of financing costs	0.1	0.2
Interest income	—	(0.5)
<b>Finance costs</b>	<b>2.8</b>	<b>2.7</b>

## 5. Expenses

Included within expenses are the following: selling, marketing, distribution and product development expenses; administrative expenses, which include employee benefit expenses, property and operations and professional fees; and depreciation and amortization expenses.

*Selling, marketing, distribution and product development expenses*

(US\$ millions)	2020	2019
Selling	17.3	16.0
Marketing	26.7	21.9
Distribution	28.5	16.9
Product development	8.4	6.2
<b>Selling, marketing, distribution and product development expenses</b>	<b>80.9</b>	<b>61.0</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 5. Expenses (continued)

### Administrative expenses

(US\$ millions)	2020	2019
Employee compensation and benefits	43.6	42.2
Property and operations	6.3	5.4
Professional services	6.8	5.0
Technology	3.2	3.0
Recruiting and training	2.5	1.6
Other	3.3	2.1
<b>Administrative expenses</b>	<b>65.7</b>	<b>59.3</b>

### Employee compensation and benefits

(US\$ millions)	2020	2019
Salaries, wages and bonuses	1.5	1.2
Employee benefits	0.3	0.2
<b>Employee compensation and benefits expenses in cost of sales</b>	<b>1.8</b>	<b>1.4</b>
Salaries, wages and bonuses	30.2	31.5
Share-based compensation	3.6	4.4
Restructuring expense	4.4	0.7
Employee benefits	5.4	5.6
<b>Employee compensation and benefits in administrative expenses</b>	<b>43.6</b>	<b>42.2</b>
<b>Employee compensation and benefits</b>	<b>45.4</b>	<b>43.6</b>

### Depreciation and amortization expense

(US\$ millions)	2020	2019
<b>Property, plant and equipment</b>		
Moulds, dies and tools, included in cost of sales	5.6	5.0
Equipment	1.1	0.7
Land and leasehold improvements	1.6	1.3
Computer hardware	0.4	0.3
	<b>8.7</b>	<b>7.3</b>
<b>Intangible assets</b>		
Trademarks, licenses, IP & customer lists - definite	1.9	1.7
Content development, included in cost of sales	8.4	9.6
Computer software	1.0	0.5
	<b>11.3</b>	<b>11.8</b>
<b>Right-of-use assets</b>	<b>3.3</b>	<b>2.3</b>
<b>Depreciation and amortization expense</b>	<b>23.3</b>	<b>21.4</b>



# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 6. Income tax

Income tax recognized in net loss:

(US\$ millions)	2020	2019
Current tax expense (recovery)	17.7	(7.2)
Deferred tax recovery	(65.9)	(0.4)
<b>Income tax recovery</b>	<b>(48.2)</b>	<b>(7.6)</b>

The income tax recovery is calculated as follows:

(US\$ millions)	2020	2019
Loss before income tax recovery	(74.9)	(28.5)
Income tax recovery at Canadian statutory tax rate of 26.5% (2019 - 26.5%)	(19.8)	(7.6)
Effect of:		
Different tax rates of subsidiaries operating in other jurisdictions	4.0	0.5
Income (expenses) not taxable (deductible) in determining taxable income	1.5	(0.2)
Recognition of previously unrecognized tax losses and other deferred tax assets	0.5	—
Unused tax losses and tax attributes not recognized as deferred tax assets	—	(0.1)
Internal transfer of intangible property	(33.3)	—
Other	(1.1)	(0.2)
<b>Income tax recovery</b>	<b>(48.2)</b>	<b>(7.6)</b>

The tax rates used for the reconciliations above are the Canadian statutory tax rates of the parent payable by corporate entities in the Group, on taxable profits under tax laws in the respective jurisdictions in which the Company operates.

## 7. Trade and other receivables

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
Trade receivables	348.9	546.2
Provisions for sales allowances	(144.1)	(174.9)
Allowance for doubtful accounts	(2.7)	(0.6)
	<b>202.1</b>	<b>370.7</b>
<b>Other receivables</b>		
Investment tax credits receivable	22.8	24.2
Sales tax receivables	7.2	12.0
Royalty receivables	11.4	14.2
Other	13.3	6.6
	<b>54.7</b>	<b>57.0</b>
<b>Net trade and other receivables</b>	<b>256.8</b>	<b>427.7</b>

Trade receivables disclosed above include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance because there has not been a significant change in credit quality and the amounts are still considered recoverable.

## 8. Inventories

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
Raw materials	15.9	14.2
Finished goods	140.0	171.1
<b>Inventories</b>	<b>155.9</b>	<b>185.3</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 8. Inventories (continued)

The cost of inventories recognized as an expense in cost of sales for the three months ended March 31, 2020 was \$97.8 million (March 31, 2019 - \$109.0 million).

## 9. Property, plant and equipment

(US\$ millions)	Moulds, dies and tools	Equipment	Land and leasehold improvements	Computer hardware	Total
<b>Cost</b>					
December 31, 2018	114.0	24.4	33.8	11.3	<b>183.5</b>
Additions	24.7	7.6	5.6	3.0	<b>40.9</b>
Asset retirements	(8.7)	(2.3)	(1.9)	(0.2)	<b>(13.1)</b>
Foreign currency translation	(1.1)	—	1.6	0.1	<b>0.6</b>
<b>December 31, 2019</b>	<b>128.9</b>	<b>29.7</b>	<b>39.1</b>	<b>14.2</b>	<b>211.9</b>
Additions	2.4	0.5	—	0.3	<b>3.2</b>
Foreign currency translation	(2.3)	(0.9)	(2.3)	(0.8)	<b>(6.3)</b>
<b>March 31, 2020</b>	<b>129.0</b>	<b>29.3</b>	<b>36.8</b>	<b>13.7</b>	<b>208.8</b>
<b>Accumulated depreciation</b>					
December 31, 2018	(93.5)	(15.2)	(10.4)	(8.4)	<b>(127.5)</b>
Depreciation	(20.9)	(3.4)	(5.8)	(1.4)	<b>(31.5)</b>
Asset retirements	8.7	2.3	1.9	0.2	<b>13.1</b>
Foreign currency translation	1.4	(0.1)	(0.5)	—	<b>0.8</b>
<b>December 31, 2019</b>	<b>(104.3)</b>	<b>(16.4)</b>	<b>(14.8)</b>	<b>(9.6)</b>	<b>(145.1)</b>
Depreciation	(5.6)	(1.1)	(1.6)	(0.4)	<b>(8.7)</b>
Foreign currency translation	1.7	0.6	0.9	0.6	<b>3.8</b>
<b>March 31, 2020</b>	<b>(108.2)</b>	<b>(16.9)</b>	<b>(15.5)</b>	<b>(9.4)</b>	<b>(150.0)</b>
<b>Net carrying amount</b>					
<b>December 31, 2019</b>	<b>24.6</b>	<b>13.3</b>	<b>24.3</b>	<b>4.6</b>	<b>66.8</b>
<b>March 31, 2020</b>	<b>20.8</b>	<b>12.4</b>	<b>21.3</b>	<b>4.3</b>	<b>58.8</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 10. Intangible assets

(US\$ millions)	Brands - indefinite	Trademarks, licenses, intellectual properties & customer lists - definite	Content development	Computer software	Total
<b>Cost</b>					
December 31, 2018	113.4	45.9	113.2	19.7	<b>292.2</b>
Additions	—	—	48.1	5.2	<b>53.3</b>
Asset impairments	(5.6)	—	—	—	<b>(5.6)</b>
Assets recognized upon acquisition	6.5	5.5	—	—	<b>12.0</b>
Foreign currency translation	1.4	0.3	3.2	1.0	<b>5.9</b>
<b>December 31, 2019</b>	<b>115.7</b>	<b>51.7</b>	<b>164.5</b>	<b>25.9</b>	<b>357.8</b>
Additions	—	—	13.1	2.7	<b>15.8</b>
Foreign currency translation	(2.8)	(2.6)	(10.7)	(2.5)	<b>(18.6)</b>
<b>March 31, 2020</b>	<b>112.9</b>	<b>49.1</b>	<b>166.9</b>	<b>26.1</b>	<b>355.0</b>
<b>Accumulated amortization</b>					
December 31, 2018	—	(11.9)	(97.3)	(17.2)	<b>(126.4)</b>
Amortization	—	(6.8)	(31.1)	(2.2)	<b>(40.1)</b>
Other	—	0.2	(8.3)	(0.8)	<b>(8.9)</b>
<b>December 31, 2019</b>	<b>—</b>	<b>(18.5)</b>	<b>(136.7)</b>	<b>(20.2)</b>	<b>(175.4)</b>
Amortization	—	(1.9)	(8.4)	(1.0)	<b>(11.3)</b>
Foreign currency translation	—	0.5	8.2	2.0	<b>10.7</b>
<b>March 31, 2020</b>	<b>—</b>	<b>(19.9)</b>	<b>(136.9)</b>	<b>(19.2)</b>	<b>(176.0)</b>
<b>Net carrying amount</b>					
<b>December 31, 2019</b>	<b>115.7</b>	<b>33.2</b>	<b>27.8</b>	<b>5.7</b>	<b>182.4</b>
<b>March 31, 2020</b>	<b>112.9</b>	<b>29.2</b>	<b>30.0</b>	<b>6.9</b>	<b>179.0</b>

## 11. Goodwill

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
Balance, beginning of period	138.8	124.2
Additions during the period	—	13.6
Measurement period purchase price adjustments - Orbeez	(0.7)	—
Foreign currency translation	(1.8)	1.0
<b>Balance, end of period</b>	<b>136.3</b>	<b>138.8</b>

There have been no impairment losses recognized with respect to goodwill for the three months ended March 31, 2020 (March 31, 2019 - nil).

## 12. Trade payables and accrued liabilities

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
Trade payables	112.2	215.8
Accrued liabilities	89.8	129.8
<b>Trade payables and accrued liabilities</b>	<b>202.0</b>	<b>345.6</b>

Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax and other balances.

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 12. Trade payables and accrued liabilities (continued)

During the three months ended March 31, 2020, the Company announced changes in senior leadership. Included within accrued liabilities is a restructuring provision of \$4.2 million for the period ended March 31, 2020 (December 31, 2019 - \$2.1 million).

Contract liabilities are comprised of advances on contracts relating to licensing and television distribution, which arise as a result of consideration received in advance of the Company fulfilling its obligations. As at March 31, 2020, the Company had contract liabilities of \$4.6 million (December 31, 2019 - \$7.6 million).

## 13. Loans and borrowings

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
<b>Secured debt (at amortized cost)</b>		
Bank facilities (ii)	350.0	—
	350.0	—
<b>Less:</b>		
Unamortized financing costs	0.8	—
<b>Total unamortized financing costs</b>	<b>0.8</b>	<b>—</b>
Current	349.2	—
<b>Total loans and borrowings</b>	<b>349.2</b>	<b>—</b>

### Secured Debt

#### Bank Facilities

- (i) On December 2, 2019, the Company reduced the limit on its Production Facility to \$7.1 million (\$10.0 million CAD) to better align with the Company's borrowing needs under the facility. As at March 31, 2020, the balance of the Production facility was nil.
- (ii) The Company has a secured revolving credit facility (the "Facility") with the amount of \$510.0 million, which matures in July 2023. Advances under the Facility may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions. The Facility also has an option which permits the Company to increase the total capital available by an additional \$200.0 million.

Available borrowing options under the Facility include:

- Prime Rate Loans;
- Base Rate Loans;
- Bankers' Acceptances from BA Lenders with a maturity of thirty, sixty, ninety or one hundred and eighty days, subject to availability;
- BA Equivalent Loans from the Non-BA Lenders with a maturity of thirty, sixty, ninety or one hundred and eighty days, subject to availability;
- LIBOR Loans with an interest period of one, two, three or six months, subject to availability;
- Swing Loans; or
- Letters of Credit

The obligation under the Facility is secured by a general security and pledge agreement in respect of all present and future personal property, assets and undertaking of the credit parties. This facility is subject to the maintenance of the following financial covenants:

## 13. Loans and borrowings *(continued)*

- Total leverage ratio, defined as the ratio of (a) total debt at such time, to (b) EBITDA for the applicable twelve-month period, is calculated on a quarterly basis, of 3.00 to 1.00 or less, provided that, in the event the borrower used proceeds of a borrowing to complete a single permitted acquisition with aggregate consideration greater than \$100.0 million during any two consecutive fiscal quarters falling within the twelve-month reporting period immediately following such permitted acquisition, the borrower must only maintain the total leverage ratio 3.50 to 1.00 or less; and
- Interest coverage ratio, calculated on a consolidated, rolling four quarter basis, at 3.00:1.00 or greater.

The Company was in compliance with all covenants as at March 31, 2020 and December 31, 2019.

As at March 31, 2020, the Company had utilized \$350.4 million (December 31, 2019 - \$0.7 million) of the Facility: \$350.0 million (December 31, 2019 - nil) drawn in LIBOR Loans and \$0.4 million (December 31, 2019 - \$0.7 million) drawn in letters of credit.

### **Unsecured Debt**

#### *Bank Overdraft Facility*

- (iii) On December 19, 2018, the Company entered into an uncommitted Overdraft Facility Agreement (the "European Facility") for \$13.6 million (€15.0 million). The European Facility will be used to fund working capital requirements in Europe. As at March 31, 2020, the outstanding balance was nil (December 31, 2019 - nil).

## 14. Provisions and contingent liabilities

The Company is involved in various routine legal proceedings incidental to the ordinary course of its business. The Company believes that the outcome of all pending legal proceedings in the aggregate is not probable to have a material adverse effect on the Company's business, financial condition and/or its results of operations. However, in light of the uncertainties involved in legal proceedings generally, the ultimate outcome of a particular matter could be material to the Company's operating results for a particular period depending on, among other things, the size of the loss or the nature of the liability imposed and the level of the Company's income for that particular period.

## 15. Share capital

- (a) *Authorized as at March 31, 2020 and December 31, 2019*

Unlimited number of multiple voting shares;

Unlimited number of subordinate voting shares; and

Unlimited number of preferred shares issuable in series.

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 15. Share capital (continued)

	2020		2019	
	Shares (millions)	Amount (US\$ millions)	Shares (millions)	Amount (US\$ millions)
<u>Multiple voting shares:</u>				
Balance, beginning of period	70.6	360.5	70.7	360.8
Conversion to subordinate voting shares	—	—	(0.1)	(0.3)
<b>Balance, end of period</b>	<b>70.6</b>	<b>360.5</b>	<b>70.6</b>	<b>360.5</b>
<u>Subordinate voting shares:</u>				
Balance, beginning of period	31.6	354.0	31.1	333.3
Issuance of common shares	0.2	6.0	0.4	20.4
Cancellation of common shares	(0.1)	(1.1)	—	—
Forfeiture of common shares	(0.3)	—	—	—
Conversion from multiple voting shares	—	—	0.1	0.3
<b>Balance, end of period</b>	<b>31.4</b>	<b>358.9</b>	<b>31.6</b>	<b>354.0</b>
<b>Common shares issued and outstanding, end of period</b>	<b>102.0</b>	<b>719.4</b>	<b>102.2</b>	<b>714.5</b>

### (b) Share-based plans

#### Participation arrangements

The Company had equity participation arrangements ("Participation Arrangements") with nine senior employees and one former employee pursuant to which they were entitled to receive a cash payment and shares on the Initial Public Offering (the "Initial Offering") of the Company. The Participation Arrangements served to reward past service and encourage retention. The terms of the Participation Arrangements differ between participants with vested participants being entitled to some or all of their shares between six months and six years following the Initial Offering.

The Company satisfied the participants' entitlements by making a one-time cash payment to participants and by issuing an aggregate of 4,790,178 subordinate voting shares immediately prior to the closing of the Initial Offering. The compensation expense for the Participation Arrangements is calculated based on the fair value of each participation arrangement, as determined by the value of the Company at the closing of the Initial Offering, less the value of the cash settlement. The Company recognizes compensation expense over the vesting period of the Participation Arrangements, which is between six months and six years.

On February 18, 2020, the Company announced changes to senior leadership. As a result of these changes, 301,160 subordinate voting shares were forfeited and 133,550 subordinate voting shares with a fair value of \$1.1 million were canceled.

As at March 31, 2020, 465,939 (December 31, 2019 - 1,068,258) subordinate voting shares were outstanding relating to the Participation Arrangements with a weighted average grant date fair value of \$6.5 million (December 31, 2019 - \$14.9 million) based on the weighted average of the contractual life remaining of 8 months.

Share based compensation expense of \$1.0 million (2019 - \$1.0 million) relating to Participation Arrangements is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the three months ended March 31, 2020.

#### Long-Term Incentive Plan ("LTIP")

The Company has an equity based compensation plan providing for the issuance of securities from treasury under which the grants will be made by the Company. Under the LTIP, the Board may at its discretion from time to time, grant share options, share units (in the form of RSUs and PSUs), Stock Appreciation Rights ("SARs"), restricted stock and any other equity based awards.

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 15. Share capital (continued)

The Company settled vested LTIP grants during the three months ended March 31, 2020 through the issuance of shares. The settlements resulted in a transfer of \$2.1 million (2019 - nil) from contributed surplus to share capital.

### RSUs and PSUs

Below is a summary of the activity related to RSUs and PSUs outstanding as at March 31, 2020 and December 31, 2019.

<b>(number of units)</b>	<b>Mar 31, 2020</b>	<b>Dec 31, 2019</b>
Outstanding, beginning of period	713,908	708,090
Granted	1,205,672	460,559
Exercised	(230,551)	(413,088)
Forfeited	(54,544)	(41,653)
<b>Outstanding, end of period</b>	<b>1,634,485</b>	<b>713,908</b>

Included in the above table are grants of 936,051 PSUs to certain key employees during the three months ended March 31, 2020 (December 31, 2019 - 453,246).

Share based compensation expense of \$2.2 million (2019 - \$2.9 million) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the three months ended March 31, 2020 with corresponding entries recorded in contributed surplus.

### Deferred Share Units ("DSUs")

Below is a summary of the activity related to DSUs outstanding as at March 31, 2020 and December 31, 2019.

<b>(number of units)</b>	<b>Mar 31, 2020</b>	<b>Dec 31, 2019</b>
Outstanding, beginning of year	78,311	60,393
Granted	13,764	17,918
<b>Outstanding, end of year</b>	<b>92,075</b>	<b>78,311</b>

Share based compensation expense of \$0.1 million (2019 - \$0.2 million) with a mark to market gain of \$1.4 million (2019 - gain of \$0.1 million) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the three months ended March 31, 2020. A corresponding amount was recorded in accrued liabilities.

### Share Purchase Options ("Options")

The Company has one share option plan for key employees, which forms part of their LTIP. Under the plan, the exercise price of each option equals the market price of the Company's share on the date of grant and the Options have a maximum term of ten years. The Options vest ratably over four years.

As at March 31, 2020, 836,596 (December 31, 2019 - 836,596) Options were outstanding with a weighted average exercise price of \$34.60 CAD (December 31, 2019 - \$34.60 CAD).

Share based compensation expense of \$0.4 million (2019 - \$0.5 million) relating to Options is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the three months ended March 31, 2020.

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 15. Share capital (continued)

The total expense recognized for employee services received during the period for equity-settled transactions is shown in the following table:

(US\$ millions)	2020	2019
Equity-settled RSUs and PSUs	2.2	2.9
Equity-settled Participation Arrangements	1.0	1.0
Share purchase options	0.4	0.5
<b>Share based compensation expense</b>	<b>3.6</b>	<b>4.4</b>

Share based compensation expense of \$3.6 million (2019 - \$4.4 million) is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the three months ended March 31, 2020. A corresponding amount was recorded in contributed surplus.

## 16. Earnings per share

	2020		2019	
	Weighted average number of shares	Per share amount (\$)	Weighted average number of shares	Per share amount (\$)
Basic	102.2	(0.26)	101.8	(0.21)
Diluted	103.0	(0.26)	102.7	(0.21)

The Participation Arrangements issued to employees upon the Initial Offering as subordinate voting shares resulted in the issuance of fewer multiple voting shares to the principal shareholders. As these share issuances are anti-dilutive, they are not included in the computation of diluted earnings per share.

## 17. Changes in net working capital

(US\$ millions)	2020	2019
<b>Decrease (increase) in:</b>		
Trade receivables	169.6	84.7
Other receivables	(3.3)	36.1
Inventories	24.0	(1.8)
Prepaid expenses	6.6	2.5
Advances on royalties	(1.3)	1.5
	<b>195.6</b>	<b>123.0</b>
<b>(Decrease) increase in:</b>		
Trade payables and accrued liabilities	(144.9)	(108.9)
Contract liabilities	(2.9)	2.6
Provisions and contingent liabilities	(5.4)	(4.6)
Other	4.7	—
	<b>(148.5)</b>	<b>(110.9)</b>
<b>Total changes in net working capital</b>	<b>47.1</b>	<b>12.1</b>

## 18. Commitments for expenditures

As at March 31, 2020, the Company had minimum guarantees due to licensors of \$36.2 million (December 31, 2019 - \$32.7 million).



# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 19. Financial instruments and risk management

### *Fair value measurements*

With the exception of foreign exchange forward contracts which are recorded at fair value, the carrying amounts of all other financial assets or liabilities of the Company approximate their fair values as follows:

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
<b>Financial assets</b>		
Cash	424.0	115.3
Trade receivables	202.1	370.7
Other receivables	54.7	57.0
<b>Financial assets</b>	<b>680.8</b>	<b>543.0</b>
<b>Financial liabilities</b>		
Trade payables and accrued liabilities	202.0	345.6
Loans and borrowings	349.2	—
Provisions and contingent liabilities	29.6	35.2
<b>Financial liabilities</b>	<b>580.8</b>	<b>380.8</b>

The fair value of foreign exchange forward contracts generated an unrealized loss of \$2.1 million as at March 31, 2020 and is recorded in accrued liabilities (December 31, 2019 - liability of \$0.5 million). These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates.

### *Foreign currency risk*

Due to the nature of the Company's international operations, it is exposed to foreign currency risk driven by fluctuations in exchange rates. Risk arises because the value of monetary assets, liabilities, revenues and expenditures arising from transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non-U.S. dollar denominated financial statements of the Company's subsidiaries may vary on translation into the U.S. dollar presentation currency ("translation exposures"). These exposures could impact the Company's earnings and cash flows.

The Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk.

As at March 31, 2020, the Company is committed under outstanding foreign exchange contracts to purchase US\$, representing total purchase commitments of \$19.2 million (December 31, 2019 - \$15.8 million).

## 20. Segment information

Spin Master's portfolio includes children's products, brands and entertainment properties which are grouped into five major categories as follows:

- (i) Activities, games & puzzles and plush
- (ii) Remote control and interactive characters
- (iii) Boys action and construction
- (iv) Pre-school and girls
- (v) Outdoor

Information reported to the Chief Operating Decision Maker ("CODM") for the purposes of resource allocation and assessment of segment performance focuses on geographical areas rather than product category. The executives of the Company have chosen to organize the Company around the 3 operating segments as follows: (i) North America, (ii) Europe, and (iii) Rest of world. Factors considered in determining the operating segments include the nature of the Company's business activities, the management structure directly accountable to the CODM, availability of discrete financial information and strategic priorities within the organizational structure.

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 20. Segment information (continued)

### Segment revenue and results

The Company's revenue and results from operations by reportable segment are as follows:

(US\$ millions)	2020	2019
<b>Revenue by segment</b>		
North America	144.6	141.5
Europe	73.5	64.7
Rest of world	24.2	34.3
<b>Gross product sales</b>	<b>242.3</b>	<b>240.5</b>
Sales allowances	(36.9)	(30.4)
<b>Total net sales</b>	<b>205.4</b>	<b>210.1</b>
Other revenue	21.9	28.9
<b>Total revenue</b>	<b>227.3</b>	<b>239.0</b>
<b>Segment loss before tax recovery</b>		
North America	(42.9)	(20.5)
Europe	(13.5)	(3.3)
Rest of world	(14.4)	(1.1)
<b>Total segment loss before tax recovery</b>	<b>(70.8)</b>	<b>(24.9)</b>
Corporate and other	(4.1)	(3.6)
<b>Loss before income tax recovery</b>	<b>(74.9)</b>	<b>(28.5)</b>

Revenues for North America include revenues attributable to Canada of \$23.9 million (2019 - \$33.1 million) for the three months ended March 31, 2020.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2019 - nil). The Company does not include sales adjustments such as trade discounts and other allowances in reporting revenue by segment (referred to as "gross product sales").

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2. Segment loss represents loss before income tax recovery earned by each segment prior to any allocation of other expenses, foreign exchange loss and finance costs. This measure is reported to the CODM for the purposes of resource allocation and assessment of segment performance.

### Segment assets

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
North America	1,117.4	872.7
Europe	134.3	211.2
Rest of world	98.3	120.7
<b>Total segment assets</b>	<b>1,350.0</b>	<b>1,204.6</b>
Corporate and other	49.8	51.8
<b>Total assets</b>	<b>1,399.8</b>	<b>1,256.4</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 20. Segment information (continued)

Non-current assets by reportable segment are detailed as follows:

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
North America	415.6	395.1
Europe	27.5	26.9
Rest of world	29.1	13.4
<b>Total segment non-current assets</b>	<b>472.2</b>	<b>435.4</b>
Corporate and other	65.9	60.3
<b>Total non-current assets</b>	<b>538.1</b>	<b>495.7</b>

Non-current assets for North America include assets attributable to Canada of \$130.8 million as at March 31, 2020 (December 31, 2019 - \$140.2 million).

### Segment liabilities

(US\$ millions)	Mar 31, 2020	Dec 31, 2019
North America	627.9	387.6
Europe	47.6	68.9
Rest of world	37.0	56.9
<b>Total segment liabilities</b>	<b>712.5</b>	<b>513.4</b>
Corporate and other	(19.1)	(17.4)
<b>Total liabilities</b>	<b>693.4</b>	<b>496.0</b>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than deferred tax assets, other long-term assets and computer software. Goodwill is allocated to cash generating units. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than royalties payable (included within trade payables and accrued liabilities) and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

### Capital expenditures by reportable segment

(US\$ millions)	2020	2019
North America	17.0	19.4
Europe	1.5	1.5
Rest of world	0.5	0.7
<b>Total capital expenditures</b>	<b>19.0</b>	<b>21.6</b>

### Depreciation and amortization by reportable segment

(US\$ millions)	2020	2019
North America	18.4	15.8
Europe	2.7	2.0
Rest of world	1.2	0.8
<b>Total segment depreciation and amortization</b>	<b>22.3</b>	<b>18.6</b>
Corporate and other	1.0	2.8
<b>Total depreciation and amortization</b>	<b>23.3</b>	<b>21.4</b>

No impairment losses were recognized in respect of property, plant and equipment, intangible assets, right-of-use assets and goodwill for the three months ended March 31, 2020 (2019 - nil).

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and March 31, 2019

## 20. Segment information (continued)

### Revenue from major product categories

The Company's worldwide revenues based on its major product categories are as follows:

(US\$ millions)	2020	2019
Activities, games & puzzles and plush	78.1	63.0
Remote control and interactive characters	20.2	31.1
Boys action and construction	59.1	49.4
Pre-school and girls	56.5	63.4
Outdoor	28.4	33.6
<b>Gross product sales</b>	<b>242.3</b>	<b>240.5</b>
Sales allowances	(36.9)	(30.4)
<b>Total net sales</b>	<b>205.4</b>	<b>210.1</b>
Other revenue	21.9	28.9
<b>Total revenue</b>	<b>227.3</b>	<b>239.0</b>

### Major customers

Sales to the Company's two largest customer accounted for 35.3% (2019 - 36.3%) of consolidated gross product sales for the three months ended March 31, 2020. Other than the top two customers, which have remained the same year over year, no other single customer contributed 10% or more to gross product sales for the three months ended March 31, 2020.

(US\$ millions)	2020	2019
<b>Gross product sales</b>		
Customer 1	47.2	56.4
Customer 2	38.3	30.9
<b>Total</b>	<b>85.5</b>	<b>87.3</b>

## 21. Prior year comparatives

Certain prior year comparatives have been reclassified to conform with current year presentation.

## 22. Subsequent events

The Company's financial performance in 2020 will be negatively impacted by the supply chain disruption in the first quarter of 2020 and the reduction in customer demand due to COVID-19. As a result of the dynamic nature of these circumstances, it is not possible to reliably estimate the length and severity of the pandemic and the impact on the financial results of the Company.