FINAL TRANSCRIPT

Spin Master Corp.

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PRESENTATION

Operator

Good morning. My name is Adam, and I'll be your conference Operator today. At this time, I'd like to welcome everyone to the Spin Master Second Quarter 2019 Earnings 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 this 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.

Sophia Bisoukis, you may begin your conference.

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

Thank you, Adam. Good morning, everybody, and welcome to Spin Master's second quarter 2019 financial results conference call. I am joined this morning by Ronnen Harary, 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 unaudited interim financial statements for the second quarter 2019 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 further 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 statements regarding forward-looking information contained in the Company's earnings release dated July 31, 2019.

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

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

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

Thank you, Sophia, and good morning. We're pleased with our performance this quarter. We are starting to see signs that the industry is stabilizing following the disruption of Toys"R"Us demise.

Our results in the second quarter demonstrated the strength, diversity, and depth of our innovative product portfolio. We reported growth across most key metrics, including gross product sales, gross margin, and adjusted EBITDA.

Our sales performance was driven by growth in both our core products and new product introductions, which we will discuss in more detail later.

Our strategy is designed to achieve long-term success, and our strong execution against this strategy has positioned Spin Master to succeed in the evolving retail and content landscape. It is now exactly four years since we went public in the summer of 2015. I think it is instructive to reflect on how Spin Master has evolved and what we have accomplished since our IPO in the context of our four growth strategies.

We have shown significant growth with a compound annual growth (sic) [gross] product sales growth rate of over 20 percent, more than double our long-term organic growth rate target of mid-to-high single digits.

At the heart of our growth is our 36-month brand innovation pipeline, which remains robust. This pipeline is fed by the multiple touch points we have with our consumers, including physical products, traditional and innovative entertainment content, and mobile games. These various touch points strengthen consumers' attachments to our brands and franchises, and are the engine of our long-term growth.

We have innovated and diversified our portfolio of brands and products across all 11 categories of the toy industry, maintaining a healthy balance among our existing businesses, business segments, and expanding into new segments exemplified by our entry into outdoor in 2016.

Secondly, we have expanded our international footprint. In 2014, the year before our IPO, our gross product sales outside of North America represented 28 percent of our total gross product sales. During the first half of this year, sales outside of North America were 38 percent of total gross product sales.

We're making steady progress towards our goal of more than 40 percent of sales outside of North America. Our international platform is under-leveraged and provides us with a very meaningful growth opportunity.

Thirdly, we have grown our evergreen global entertainment properties with a number of new properties launched, including multiple seasons of PAW Patrol, Rusty Rivets, Abby Hatcher, and Bakugan, with more in the pipeline. We continue to grow our presence in the entertainment through multiple avenues, including our own proprietary brands and through partnerships with the best content creators to build a portfolio of diverse and complementary brands in the toy industry.

Our strategy will see us continuing to expand into more content for traditional TV, as well as more short-form and long-form content, including movies across a variety of distribution channels, including traditional broadcasters, such as Nickelodeon; SVOD, such as Netflix; AVOD, such as YouTube; and on large-screen formats. In addition, we'll be increasing focus on e-commerce and D2C initiatives as consumer purchasing habits in the retail landscape evolves.

Finally, since our IPO, we've made nine acquisitions, including Cardinal, Toca Boca, Gund, and Swimways, that have allowed us to grow in the existing categories, enter new categories, and acquire new capabilities in critical areas such as the digital and mobile space. At the same time, we have maintained a strong balance sheet that we can leverage as the foundation for further acquisitions and organic growth.

Turning to the quarter. In Q2, we launched a new season of PAW Patrol and products based on the Season 6 Mighty PAW theme. We're seeing significantly higher consumer engagement with the PAW Patrol content than we had before. This is a testament to our strategy of refreshing themes to keep the characters and stories relevant.

An interesting development I wanted to share with you relates to the amount of user-generated content we are seeing for PAW Patrol on YouTube. There are legions and legions of PAW Patrol fans creating content, which is used and viewed globally. This is creating deeper engagement with the PAW Patrol franchise.

Progress continues for the first-ever theatrical animated PAW Patrol film, which we are targeting for release in late 2021, and we believe PAW Patrol will set the foundation for other properties to follow on to the big screen.

We relaunched Bakugan in early Q1 in North America and in Australia. In early Q2, we launched Bakugan in Japan, and later in Q2 in the UK and Germany. We'll be launching Bakugan in the rest of Europe and internationally during the balance of 2019.

We are taking a long-term view on the Bakugan franchise. So far, we are very pleased with initial response, especially given the fragmentation of the content landscape we have seen since 2008. In North America, the results are good and very good in Australia.

We see the performance of Bakugan as strongly correlated to the strength of the broadcast platform the show is on. Since we first introduced Bakugan in 2007, the media landscape has undergone tremendous change, and we do not have as many eyeballs on the content as we did then.

Boys, particularly within this age group, are watching content across a number of a different platforms, including TV, SVOD, and AVOD. We have worked with our partners at Cartoon Network to make content available not only on television and SVOD, but also on YouTube. Cartoon Network launched Bakugan on YouTube with full-length episodes and original YouTube content in July. We're excited that Bakugan will also be launching on Netflix this fall.

This multiple-channel approach between Cartoon Network, YouTube, and Netflix will help us to reach the same number of kids as we did before. The strength of our global platform is the foundation for optimization of the Bakugan brand, and we will incorporate learnings from each market as we continue to roll out the franchise globally.

Following its launch in January, Abby Hatcher continues to delight both boys and girls. We look forward to the second season of Abby Hatcher in 2020, currently in production, as well as the toy line scheduled to launch in fall 2020. We want to make sure that our toy and licensing and merchandising programs are timed to launch at the time when awareness is peaking in order to maximize their potential. Every property, depending on the broadcast, will need a different amount of time to reach the appropriate awareness levels.

We want to be where the kids are and we know kids are connected to mobile devices, both for the entertainment and gaming. This fall, we are launching Dragamonz, a new franchise that provides action adventure, excitement for kids with both short-form content and an integrated toy line that will debut on Amazon Prime. The new Dragamonz toy line and accompanying trading card game is launching with a digital-first strategy that is built off of a digital platform.

Similarly, this fall we'll be launching ZOZO Zombie, an irreverent, humorous digital-first animated show adapted from the best-selling Japanese Manga, or comic book. This show, which incorporates approximately 103 3-minute episodes is produced together with our partners at ShoPro in Japan and will be launched on YouTube and Amazon via Prime Direct video. This will our first digital-only content launch. Our content will lead the toy launch using digital and social platforms. The toy line will follow the show's launch, together with a broader licensing and merchandising program.

As part of the Company’s focus on growth, Spin Master continues to build a strong portfolio of licensed products and invest in partnerships with the licensee community. Supporting strong relationships with licensing partners has been another pillar of our success. While we continue to develop original ideas based on our own IP, the major entertainment licensors also know that we are an excellent licence partner who will continue to build new and broader licensing relationships.

Because of our deep experience with creating and nurturing our own IP, we’re adept at working with global entertainment partners, such as Warner Brothers, Disney, and Universal to bring our IP to consumers in a way that enhances the brand.

Earlier this week, we were excited to announce that we entered into a global master toy licence agreement with DreamWorks Animation for their new animated preschool series, Gabby’s Dollhouse, which is set to debut globally on Netflix in 2020. Beginning fall 2021, Spin Master will bring the characters from the show to life through a new toy line that will include play sets, figures, plush, games, and puzzles.

Along with the success of both PAW Patrol and Abby Hatcher, Gabby is an exciting addition to our growing footprint in the preschool category. This partnership further strengthens our preschool portfolio of both owned and licensed IP, leveraging our expertise and scale in the category. We’re well on our way to becoming a leader in the character-based preschool category.

In addition to our five business segments, we also saw continued strength in Toca Boca and Sago Mini app sales. Both companies performed well this quarter, with strong growth and engagement in both Toca Life and Sago World’s subscription and paid app business.

Sago World now has over 100,000 subscribers globally. Since acquiring these two mobile digital companies, we have focused on their core strength, which is the development of new content for apps and strengthening their brand with consumers through different app delivery methods.

We are very excited about the long-term potential for both Toca Boca and Sago Mini, and we're continuing to invest in leveraging their expertise in the digital mobile space, both as a stand-alone opportunity and across Spin Master's platform.

In conclusion, we remain very confident in our long-term platform for growth and are excited about the prospects for the second half and beyond. As we advance our strategic initiatives, we remain confident in our proven track record of innovation and in the extent of our global reach. We continue to demonstrate our ability to produce compelling entertainment content, magical toy experiences, and to be a great partner for the licensed toy lines.

With that, I will now pass it over to Mark.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Thanks, Ronnen, and good morning. We delivered solid financial and operational results in the second quarter.

Our strong diversified portfolio of innovative brands drove gross product sales growth of 6.9 percent compared to last year. In constant currency terms, gross product sales growth was 8 percent. Adjusted EBITDA grew 21 percent, while adjusted EBITDA margin was 17.2 percent compared to 14.6 percent last year. We are executing well against our strategy, and the year is progressing as expected.

This was the first quarter that we and the rest of the toy industry had year-over-year comparisons without TRU from a shipping perspective. Keep in mind that TRU was liquidating in Q2 2018, so from a POS perspective, there is still year-over-year noise, which Ben will address later.

Gross product sales in the quarter benefitted from the shift of Easter into the second quarter of 2019 compared to Q1 2018. Gross product sales growth was led by the strong performance of the Boys Action and High-Tech Construction segments. We continued to see positive momentum and success in our licensed brands in Q2, How to Train Your Dragon and Monster Jam, and also from the relaunch of Bakugan, all of which were successfully introduced in Q1.

Our Pre-School and Girls business segment also performed well. In Q1, we explained that we had intentionally reduced our shipments of PAW Patrol to carefully manage the upcoming cutover of our TV seasons. We expected this to normalize in Q2, and it did. This quarter, we saw solid growth in PAW Patrol shipments in most key markets, as we delivered product aligned with the new Season 6.

We continue to see declines in the Remote Control and Interactive Characters business segment, largely driven by Hatchimals. As we have said for some time, the decline in Hatchimals in 2019 has been expected and planned. Ben will go over this in a little more detail later.

In Activities, Games & Puzzles and Plush, we continue to be impressed by the performance of key brands such as Cool Maker, Kinetic Sand, and Gund. Despite these increases, the segment showed a decline in overall sales due to lower sales in the Games & Puzzles portfolio. In Q2 last year, we had a number of large Games & Puzzles launches, which drove double-digit growth in the portfolio, whereas in 2019, most of our significant new product launches will be in Q3, timed with movie releases.

Geographically, gross product sales in North America and Europe increased 1.2 percent and 42.8 percent, respectively. In the rest of the world, gross product sales declined slightly by 1.7 percent.

Growth in Europe was led by Germany, UK, Central Eastern Europe, and Russia. Some of the growth in Europe and the decline in the rest of the world is due to the fact that in 2019 we commenced direct sales operations in Russia, Switzerland, Greece, and Austria. These markets were previously serviced by our third-party distribution network, and sales were recorded in the rest of the world segment.

Overall, international gross product sales represents a 36 percent of total gross product sales in the second quarter, up from 32 percent last year. On a year-to-date basis, we are at 38 percent, and we continue to make meaningful progress on our goal of increasing international penetration to over 40 percent annually.

Sales allowances as a percentage of gross product sales were 8.3 percent for the quarter compared to 6 percent. As a reminder, sales allowances are typically between 10 and 12 percent of annual gross product sales and vary by quarter due to the timing of promotional and markdown spending.

Other revenue, which includes television distribution income, merchandise royalty income, as well as app revenue from Toca Boca and Sago Mini, decreased by 8.2 percent, as positive contributions from television distribution income and app revenue were offset by lower licensing royalty income.

Gross profit for the quarter was $164 million, representing 51.2 percent of revenue compared with 153 million, or 42.9 percent last year. The increase in gross profit was largely driven by higher volume and contributions from a favourable shift in product mix towards higher-margin brands. The net impact of TV show revenue and amortization on gross margin was also a positive driver in Q2.

The improvements in gross margin were partially offset by higher freight and inland transportation costs. We are seeing higher costs deriving from the US-China trade dispute, due to a spike in demand for ocean freight and inland transportation capacity as importers scrambled to bring goods earlier in Q2 to avoid the anticipated tariffs.

As we've discussed, as part of our risk management program, we've been diversifying our manufacturing footprint for several years. During the quarter, we increased our resources invested in this program to accelerate our plans further, and as a result, we saw additional start-up costs from our efforts to accelerate supply diversification out of China into India and Vietnam.

SG&A expenses for the quarter increased 14.8 million, or 11.3 percent compared to last year. The increase in SG&A comprises $6.6 million higher restructuring costs and $1.8 million higher share-based compensation costs. Excluding these items, SG&A increased 6.4 million, and as a percentage of revenue, was 41.9 percent compared with 41.1 percent. The increase in SG&A was driven by higher distribution and selling expenses, partially offset by lower administrative and marketing expenses.

Regarding higher distribution costs, we continued to make investments and realign our distribution infrastructure to position us for future growth. Distribution expenses were $5.1 million higher than last year and represented 5.1 percent of revenue compared to 3.6 percent, driven by the continued ramp-up of our new East Coast US DC, our new DC in Hungary servicing our expanded Eastern European markets, and our new DC in Moscow servicing Russia, Belarus, and Kazakhstan.

Once completed in the second half of 2019, our new supply chain infrastructure will enhance operational efficiencies, improve customer service levels, and drive operating leverage.

Selling expenses increased slightly in the quarter as the mix of licensed products, including Monster Jam and How to Train Your Dragon, resulted in higher royalties. We continue to expect variable selling expenses to be slightly higher in 2019 compared to 2018 for this reason.

Excluding the restructuring and share-based compensation costs I referred to earlier, admin costs improved slightly compared to the prior year in both dollars and rates, reflecting our disciplined focus on expense control. The decrease in our administration cost was primarily attributable to a charge last year for the mark-to-market of our LTIPs. As of August 21, ’18, we began to equity settle our LTIP share-based comp, and as a result, we are no longer required to mark-to-market. This decrease was partially offset by higher depreciation for the leasehold improvements for our new head office.

Also, please keep in mind that in the first half of 2019, we are carrying costs associated with the start-up of Russia, Greece, Austria, and Switzerland, which will yield benefits later in 2019 and beyond.

Also, Gund admin costs are included in our 2019 results, but were not for most of H1 2018. In this respect, Q3 will be the first quarter where we will be fully comparable from a cost perspective.

Adjusted EBITDA for the quarter was $55 million compared to 45 million last year, primarily as a result of higher gross profit, partially offset by higher distribution and selling expenses. Our adjusted EBITDA margin was 72.1 percent compared to 14.6 percent. Please note that adjusted EBITDA for the second quarter of 2018 was not restated by IFRS 16. The impact of IFRS 16 for Q2 2018 would have been an increase of approximately $2.2 million.

Net income for the quarter declined to 10.2 million from 26.9 million. Please note that Q2 2018 included a $15.5 million nonrecurring favourable legal settlement. Adjusted net income for the quarter increased by 2 million, driven primarily by higher gross profit, offset by higher distribution and selling expenses, as discussed earlier.

Total net working capital as a percentage of revenue at the end of Q2 increased to 15.9 percent from 9.6 percent. This was primarily attributable to an increase in core working capital and a decrease in taxation and incentive compensation-related accruals, partially offset by a decrease in other receivables, as we have now begun to collect our entertainment tax credit.

Our core working capital, comprising trade receivables, inventory, and trade payables, increased to 14.9 percent of revenue compared to 12.2 percent. Inventory on hand increased at the end of Q2 as we brought in finished goods earlier in anticipation of and increase in tariffs and a shift by retailers to more domestic orders, rather than FOB. Receivables increased in line with our growth in Europe and Mexico, which are primarily domestic markets and where credit terms are longer.

Overall, our cash conversion cycle increased by 7 days to 52 days. Free cash flow was 18.5 million, declining slightly from 19.5 million in the prior year.

Our balance sheet remains very strong, and we ended Q2 with $77 million in cash and no debt.

To conclude, our outlook for the full year 2019 remains unchanged. On a full year comparative basis, we expect our organic gross product sales growth to be low-single digits over 2018.

We remain committed to our long-term financial framework, which targets organic gross product sales growth of mid-to-high single digits. We continue to be extremely focused on cost management and productivity initiatives. Consistent with our prior guidance, we expect our adjusted EBITDA margin in 2019 to be in line with the margin we achieved in ’18. That implies if we include or exclude IFRS 16 in both years.

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, everyone. We are proud of our global team’s dedication and commitment as we remain focused on the successful execution of our growth strategies.

The combination of our commitment to our brand innovation pipeline, which drives diversified portfolio management, our global scale, and our growing global entertainment pipeline, has resulted in our success to date and positions us to achieve long-term success.

Starting with the bankruptcy filing of Toys”R”Us in Q3 2017, the toy industry has entered one of its most disruptive and challenging periods, culminating in the liquidation of TRU in several key markets in Q2 of 2018.

At the same time, we have seen one of the most successful product launches in our history, Hatchimals, explode in popularity in 2017 and 2018, and then decline significantly in 2019. As we have discussed before, Hatchimals’ strength in 2017 and 2018 and the decline in Hatchimals shipments for 2019 was anticipated and planned. Despite the decline of Hatchimals, global Spin Master POS, excluding TRU and Hatchimals, was up 25 percent in Q1, and that number accelerated to 32 percent in Q2.

In the US, excluding TRU and Hatchimals, Q1 POS grew 19 percent and in Q2 grew 24 percent, while the industry has still not fully recovered from the demise of TRU.

It is important to emphasize that we not only weathered this difficult period with the closure of TRU and the decline of Hatchimals, we strengthened the health of our entire portfolio. As you know, our outlook for 2019 has been and continues to be low-single digit organic growth, and as we had anticipated, the decline of Hatchimals.

We are carefully managing the Hatchimals brand even as we introduce new items in the line later this year. We believe that the magic of this toy pattern will endure, and we are managing shipments, product introduction, and inventory levels with the expectation that Hatchimals will continue to be a solid brand, but at a lower overall level than in the past.

Looking forward to 2020 and beyond, Spin Master will have a broad and deep portfolio of brands and products where comparison with 2019 will be much easier, as Hatchimals will have had stabilized.

We are innovating and creating toys which kids love. We have built a portfolio of diverse and complementary brands, and it is working.

We entered 2019 with a clean channel and high-quality inventory. As a reminder, for all of our brands, we continue to apply a disciplined method of analysis to ensure optimal inventory management, whereby we rigorously measure beginning inventory, shipment-in, POS, and ending inventory.

We remained diligent in our approach to our channel inventory management through the end of 2018 and the first quarter of 2019. This has positioned us to successfully execute for the balance of 2019.

Our overall POS performance this quarter was excellent. It is important to note that the liquidations of Toys”R”Us US business was largely completed during Q2 2018, with a majority of the inventory sold through by the end of June. From a POS perspective, the absence of TRU in 2019 resulted in non-comparable data.

Despite this, our global POS, including TRU, still grew 3 percent for the quarter. Excluding TRU, but including Hatchimals, our global POS grew 21 percent, and in the US, POS grew 14 percent. We are very pleased with our performance, and this is a clear indication of the health of our brands.

We continue to see positive momentum internationally and in many key markets. Our POS is outpacing the industry and the competition. In Europe, for example—sorry for the background noise—in Europe, for example, Germany, Central and Eastern Europe, France, and the UK saw strong double-digit POS growth.

In Germany, for example, we saw POS growth of 65 percent, and in the UK, we saw POS growth of over 33 percent despite turbulence of the market due to Brexit. According to industry sources, the overall UK market was down low-double digits, and we were the only toy manufacturer to grow during the second quarter. In Australia, we saw POS growth of 37 percent, and in Mexico, POS grew 10 percent in the quarter.

We are confident in the momentum of our top-line growth and in our POS performance. In addition, to ensure sustained growth and to continue to create value, we are consistently focused on generating operating leverage and gaining efficiencies in all areas of our business.

Let me update you on three initiative we have undertaken this year. The integration of Gund, Cardinal, LA Games, and Swimways has now been executed and they have now been successfully consolidated into Spin Master East in Long Island City, New York. This initiative will result in increased innovation, better communication, and significant cost savings.

Secondly, as we discussed with you in our first quarter conference call, we began making investment to establish new distribution centres in the East Coast of the US, Hungary, and Moscow. We continued taking steps in refining our supply chain efficiencies to accommodate speeds of delivery to consumer, as well as mobile commerce.

All these facilities are now running and contributing. In the case of Hungary and Moscow, to drive growth across Central and Eastern Europe and Russia. Although, we've see increased costs in the initial ramp-up stage, we anticipate operating leverage in the back half of 2019 and beyond.

Thirdly, in the supply chain area, we accelerated our diversification out of China. A lot of this was due to the tariff dispute and part to our normal diversification program, which we started several years ago.

If you recall, in 2015 approximately 90 percent of our production was in China and it is approximately 65 percent currently. China will always be an important region for the toy industry, but we want to be below 50 percent production in China by the end of 2020.

We are moving production quickly into Vietnam and India and are looking at other areas as well. As Mark mentioned, we incurred some onetime setup costs in Q2 in Vietnam and India as we shifted some of our manufacturing out of China. The new factories will drive cost saving in the near future.

I would now like to briefly review our four key growth strategies and provide you with an update on some of our 2019 initiatives.

Our first growth strategy, to continue to innovate the core product portfolio, relies on our ability to consistently infuse innovation into our brands and products, whether it is our own IP or licensed brands.

We successfully continued to do this this year. A number of our items have been chosen as top toys for the holidays by our key large retail customers.

Our internal and external R&D network and the proven internal 36-month brand innovation pipeline process facilitate the identification of market opportunities that we capitalize on through product development or acquisition. Our current 36-month pipeline is very strong, and we are excited about what is in store for 2020, 2021, and beyond.

The Activities, Games & Puzzles and Plush segment is a strong platform for Spin Master. Good examples of our commitment to innovation and driving results in the second quarter are new products, such as Twisty Petz and Candylocks, which offer truly original gameplay, and our innovative Cool Maker Go Glam Nail Painter, which has generated a lot of excitement so far.

In the second half of the year, we are launching Games & Puzzles aligned with the release of Frozen 2, Toy Story 4, Black Panther and The Lion King.

One year after acquisition of Gund, we continue to generate solid growth and scale the business through our ability to use our global sales and distribution infrastructure and our ability to capitalize on strong licensing opportunities with key partners.

This year, we added two strong license partnership to the Gund portfolio: Hilda, the award-winning animation series airing on Netflix, which we announced early this year; and as Ronnen mentioned previously, the new animated preschool series, Gabby's Dollhouse. Beginning fall 2021, we will bring the character from the show to life through a new toy line that will include play sets, figures, plush, games, and puzzles.

We have some great innovations for 2019 in the Remote Control and Interactive Characters segment. This fall, we are launching Juno My Elephant (sic) [My Baby Elephant], our animated baby elephant, and Owleez, an interactive flying pet. Retailers are very excited about these products, and initial shipments and orders of both have been very positive.

Juno and Owleez are both a testament to our team's ability to continue to innovate in this high-tech space and merge technology with great play.

We also seek to leverage innovation across product lines. For example, we deployed the hatching technology that made Hatchimals such a groundbreaking success into our How to Train Your Dragon line. This item was one of our top sellers on the Amazon Prime day launch.

We also are very happy with the performance of our Monster Jam and remote control trucks, which had significant growth in the second quarter.

In Hatchimals, where we have over 90 percent brand awareness with US moms and close to the same level with kids, we are continuing to innovate and stretch the brand. The strength of the brand is allowing us to enter new categories, such as small dolls. We just launched Hatchimals Pixies, which has allowed us to break into the small doll category.

Pixies is a cross between a collectible and a dollhouse in an egg and is selling extremely well. We will be launching Colleggtibles Season 6, Secret Surprise, and Hatchiwall (phon) in the fall. We have more innovations for 2020 and beyond.

The Boys Action and High-Tech Construction category was our strongest-performing segment as we continued to see momentum and solid contribution from three major launches this year. How to Train Your Dragon, Monster Jam, and Bakugan led to the growth and are performing well from a POS perspective.

Our relaunch of Bakugan is going according to plan. We have great placement in the fall category lineup, and very strong positive brand feedback.

In Australia, we're seeing exceptional performance as retailers are increasing their orders. The appetite and excitement for the brand in Europe is high, with the majority of European markets launching products and content in the next few months.

The innovative product line from Monster Jam was introduced in January of this year and continues to show very strong POS results globally, including Mexico and Australia. The Monster Jam licence is an example of the success of combining our innovative brand development with our licensing portfolio, giving us great opportunity for diversification and growth.

The strength and momentum of How to Train Your Dragon line continued in Q2. Universal's ability to create an exceptional film, outstanding distribution in a TV show, combined with great marketing, has helped drive strong sales and demand for this franchise. We expect to see continued strong performance. We expect the momentum in growth for these properties to continue in the back half of 2019 and beyond.

Beginning spring 2020, we will be the new toy licensee for DC Entertainment Boys Action category, including remote control and robotic vehicles, water toys, and games and puzzles. Our teams are already hard at work developing the line for 2020, and initial customer reaction has been very positive.

The Pre-Schools and Girls category saw strong performance, driven by fresh new themes in PAW Patrol and innovative new product lines. Later in the second quarter, we began shipping the new Mighty Pups line. We also launched PAW Patrol in Japan in partnership with Takara Tomy, and the initial results have far exceeded our expectations.

We remain very confident in PAW Patrol's prospects for this year and beyond based on upcoming content, new themes, and innovative products. This fall we'll introduce the Ready Race Rescue TV special and new toy items to bring the theme to life.

Overall, we've seen very significant growth in views of our content. The Mighty Pups trailer was our top-performing PAW Patrol content ever, with 34 million views. Product tied to the Super Paws season began hitting the shelves late in Q2, and we are very excited by early customer engagement. Our retail partners are also very excited by the brand momentum with the strongest feature, support, and product line engagement we have seen for the brand to date.

The momentum we saw in the first quarter for Twisty Petz continued into the second quarter. In addition to the growth of this existing brand, we introduced Candylocks, a new line of dolls with long, colorful, scented, cotton-candy inspired hair, which has performed very well so far.

The Outdoor segment POS was down slightly this quarter. Weather-related issues in the first half of this year continued into the first few months of the second quarter. That trend changed in the back half of the second quarter, and we have started to see good momentum build in this category as well.

Our second growth strategy is to grow our international sales. Currently, our international infrastructure is under-leveraged, and we see tremendous opportunities to drive growth across our entire product line internationally. Our international infrastructure also represents a valuable asset when competing for new products, opportunities, and licenses.

Continuing to expand our geographic footprint is a catalyst for growth, as it enables us to more successfully compete for major studio licenses and master toy rights. Similarly, our ability to make acquisition works (phon) improved, since we have more markets into which we can take the acquired products and brands.

Our key established European markets, such as the UK, Germany, and France are performing very well. The Central Eastern European region, which we opened in 2018, is also growing very nicely.

At the beginning of this year, we opened our Russian office and also began direct selling activities in Greece, Austria, Switzerland, and the Balkans. Russia is exceeding our expectations so far, and we saw good growth in many of our European markets. Outside of Europe, Australia, which we opened in 2017, and Mexico also continue to grow.

Our third growth strategy is aimed at developing evergreen global entertainment properties. Through the success of our brands, such as PAW Patrol, we have proven that creating compelling and engaging content with retail initiatives, such as toys, helps optimize brand equity and in turn drives higher growth rate and higher margins. We have a deep pipeline of new properties at various stages of development intended for global broadcast.

In addition to these properties in the pipeline, we are pleased with the success of current entertainment property launched, and are excited about the new content we have planned for 2020 and beyond. The entertainment team is very focused keeping existing franchises fresh, while at the same time building new franchises for preschool kids and kids between the age of 6 and 9 years old.

Finally, acquisitions have been an important component of our successful growth over the years. We continue to be actively looking at potential targets, and the success we have had with nine acquisitions we have made since our IPO clearly demonstrates our ability to successfully identify, integrate, and grow these businesses.

The disruption in the retail landscape in recent years, including but not limited to Toys”R”Us, have put pressure on many companies. We have a healthy pipeline of opportunities, and believe our global scale, strong balance sheet, and financial flexibility positions us to capitalize on opportunities with the right strategic fit and valuation.

We have said this repeatedly, but we will remain patient, diligent, and disciplined in our approach to acquisition. We will only acquire assets that fit our quality, financial, and long-term strategic criteria and are also able to generate the right value-creation opportunities for shareholders.

To conclude, we are excited for the back half of 2019 and are confident in our brands. We have built a strong and focused platform and are incredibly proud of the effort and results that our employees have delivered around the world.

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

Q&A

Operator

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

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

Sabahat Khan — RBC Capital Markets

Thanks, and good morning. Just maybe starting with PAW Patrol, I think last quarter you'd indicated that you expect sales to be a bit more H2 weighted this year. And I guess following the strength that you had in Q2, I just want to get an idea of how you're thinking about the back half, especially with the cadence of the show just being launched and then that special you have in the fall. So just want to get understanding of Q3 and 4?

Ben Gadbois

Good morning, Saba. I can answer that. So before we talk about Q3, Q4, I think if we just look in the rearview mirror for a couple months, if you recall, we talked in Q1 about our changed approach this year in terms of how we're going to make the changeover at retail from one segment to the other, which also impact the product line. And we're very pleased with how that's worked out. It created a little bit of noise between Q1/Q2, but in Q2, our global POS with PAW Patrol is up 12 percent. And we just launched a new product line in June, and there's also more product coming in the fall, such as the Mighty Tower, which is a $99 item. And the market is very excited for not just that item, but most of the new items we're launching in the product line.

So overall, the portfolio is doing very well not just in the US or in the traditional market that we've had, but we just launched in Japan, as we mentioned. It's doing very well. We're ahead of expectation. We're getting ready to launch more content in the fall, which is the Ready Race Rescue TV special. So the franchise is overall very healthy globally. It continues to do very well in not just the current market where we're in, but also the new market where we … that we just launched.

So I think from an outlook standpoint, when we look at the great content still being launched in the franchise, paired up with the great product line, we feel very confident in the continued success of PAW Patrol on a global scale.

Sabahat Khan

Okay. Thanks. And then just on Bakugan, you provided some colour, but I just want to get an understanding of as you roll the product out, will you be in all or most of the markets that you want to be in, say, before Christmas? Or will you have product in most of those markets? I just want to get an understanding of when that rollout will be largely completed.

Ben Gadbois

Yeah. Okay. So I can answer that as well, Saba. So on Bakugan, as everyone knows, we're taking a disciplined launch in 2019. So earlier this year we launched Bakugan in North America, Australia, then UK, and Germany—actually, Germany just a few weeks ago, which is doing really well.

Most of Europe is launching now in upcoming weeks. So in the next—between now and the next few months, we're launching Nordic, Portugal, Spain, Turkey, France, Benelux, Russia, Greece, Central and Eastern Europe, Mexico, the Baltics. So we're really launching Bakugan. We're like right—we're just starting the rest of our international launches now. And the results are building very well right now across all markets. And I think Ronnen addressed some of the broadcasting activities and focus that we have now.

So we expect to continue to steadily build the franchise in the second half. And I think we'll be in a very good position in 2020 on a global scale. So we're very positive about the franchise, and the momentum is building everywhere. And the retailers are also … where Bakugan has been launched so far, the retailers are very supportive.

Sabahat Khan

Okay. And then just the commentary earlier around maybe decreasing your exposure to China because of tariffs. I guess that going below 50 percent in China, is that sort of your strategy regardless of what happens on the tariffs front? Or is that you want to get below 50 percent if tariffs are imminent? Just want to get an idea of the long-term view on the manufacturing footprint.

Ben Gadbois

Yeah. I think, Saba, when we look at the diversification strategy, we have had our strategy four, five years ago where most of the Company exposure was over 90 percent in China. And there are more—

we decided to diversify out of China for several reasons is, one, obviously, having all your eggs in one country is not good business practice for the future, but it's also for cost savings and for diversification.

So keep in mind in China, the labour has always increased like double digits every year, and you have other places in the world that are now cheaper than China. So we do like China. We see China as continuing to be really important for the toy industry, but 50 percent is more or less where we will be comfortable.

And as a reference, we're down to … we went from 90 percent to approximately 65 percent this year. And all the plans are in place working with all the right partners on a global scale to be below 50 percent next year. So it is part of our strategy, regardless of what happens with tariffs.

Sabahat Khan

Okay. And then just one last one for me, more on the just overall content side. So I think, Ronnen, you gave us a bit of a rundown on some of the new shows for later this year. Can you maybe recap for us exiting 2019 how many of your own TV shows will be out in the market? I just want to get an idea of how much of your own content you'll have out there.

Ronnen Harary

Well, I would say in the Pre-School category, there would be three shows, which would be PAW Patrol, Rusty, and Abby Hatcher. And then in the short-form YouTube Direct, you would have ZOZO Zombie, which is coming on in September. And also Dragamonz, so two short-forms and three longer-forms. And Bakugan, which is Boys 6 to 9. So I'd say three in the Pre-School category and three in the Boys 5 to 9 category.

Sabahat Khan

Great. Thank you.

Operator

And your next question comes from Derek Dley of Canaccord Genuity. Please go ahead.

Derek Dley — Canaccord Genuity

Yeah. Hi, guys. Can you just comment on what you've seen in terms of some of the newer retailers that you're dealing with in terms of their purchase orders? Are the size of the orders increasing now? Or are you still seeing that sort of initial smaller order with a replenishment cycle coming afterwards?

Mark Segal

Derek, it's Mark. I don't think we've seen any major trends on the new retailers. We talked last year about Party City and some other retailers that were actually getting into the market. I think they're still there, but not necessarily in any meaningful way. We continue to support them, we continue to nurture them, but they're not a huge factor one way or the other right now.

Ben Gadbois

Yeah. The only thing I would add, Derek, to echo what Mark said is that there's a lot of new payers last year that came in and tried to take a, call it, a more meaningful position in the market. And I think we haven't seen any one really emerge as being significant. So I think we'll see the same thing this year where there'll be a multitude of smaller retailers that will try to take toy offerings, but we don't see anything new versus what we saw last year.

Derek Dley

Okay. That's helpful. And just in terms of Europe, could you comment what you're seeing that's really driving the strong results out of Europe? Is it in part at all to the shift to a direct distribution model in some of your key countries? And would you move to this model in some other regions, namely Asia?

Ben Gadbois

Yeah. So I think Europe is a mixed bag this year. Although our company is doing really well, as we just outlined a few minutes ago, there's a lot of noise right now in the European market. So in the UK, for example, the market year to date is down 11 percent. But yet, year to date we're up single—I mean, high-double digit. Germany is up 1 percent, so it's a fairly stable market. I think we're up 65 percent in the second quarter. France is flat, we're up 9 percent; Australia is a down market, which is not necessarily Europe, but it's an important region.

So there's a lot of moving parts in Europe, and a lot of the moving parts, obviously Brexit has a significant impact in the UK, but it also creates nervousness in different areas. And there's also been some bankruptcy in Europe this year. So you have Intertoys in Benelux; in Nordic last year we had Top-Toy; and in France, we see some small, mid-sized specialists going under as well. And I think all the volumes now is moving to different retailers.

So there's a lot of noise, but what we're seeing is our properties are resonating extremely well. And I think, going back to what we discussed earlier, we're really pleased with the strength of our portfolio. And I think our portfolio is working particularly well right now in Europe.

Mark?

Mark Segal

Yeah. Just to add to what Ben said, Derek. The vast majority of the growth that we saw in Europe in the second quarter was actually volume-related, but a small part of it was due to the conversion of these territories that we're now directing from a third-party distribution model, but it was not that significant. Most of it was actually organic growth.

Derek Dley

Okay. Great. Thank you very much.

Ben Gadbois

Thanks, Derek.

Operator

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

Steph Wissink — Jefferies

Thanks. Good morning, everyone. Just a couple of housekeeping and then one question, Mark, for you on the realignment of distribution. So first just housekeeping-wise, could you give us some sense of the costing as you move towards these alternative venues outside of China? Any changes we should be thinking about in terms of cost of goods particularly related to the logistics side? And then secondly, a housekeeping, just help us bridge the first half sales decline kind of down mid-single digits first half to your expectations for the year. In addition to the Games business, it sounds like improving in the back half. Anything else we should really be focused on to bridge that gap?

Ben Gadbois

Okay. Steph, I'll take the first one. Mark and I will split it. So from a supply chain standpoint in Asia, everything that we do is obviously to drive productivity and efficiency. So obviously, the tariffs came along, which now creates a diversification strategy that appears to be defensive, while the origination of our diversification strategy is to drive productivity and cost savings. So that is still the goal. And we will continue to be very, very focused on our cost of goods while maintaining all the right quality and the right service level. So that's the expectation going forward.

And then from a Q1 into Q2 is the decline in Q1, as you know, there was an impact on the Easter that we talked about, and also the fact that we did the cutoff in PAW Patrol from Q1 to Q2, which also impacted Q1, as we had discussed. So the most important thing for us, Stephanie, is when we look at the momentum of our POS is, again, I just want to go back to what we talked about is if you actually peel the onions and you really try to understand our POS is—maybe I can address it on an even higher level—is that if you start with Hatchimals, what's happening this year is Hatchimals is down approximately 60 percent this year. And it's very much in line with our forecast, which is why if you recall several months ago, we guided this year to low-single digit growth for 2019.

But there are three real positives here to point out despite this large Hatchimals franchise decline is that, one, the Hatchimals brand will continue to be a very nice business for us for years to come. And we continue to have great innovation this year like little Pixies and Hatchiwall (phon), which will—which Pixies is in the market now doing great and Hatchiwall (phon) is launching this year. So there's really good innovation that will continue in the Hatchimals brand, so that will continue to go forward.

And our 36-month brand innovation pipeline is allowing us to still grow our top line with a strong portfolio that ex-Hatchimals grew 32 percent year over year in Q2. And another interesting point to go back to Q1, Steph, as you ask, is that number was 25 percent POS growth ex-Hatchimals, ex-TRU in Q1. And it's now—the momentum has built 32 percent in Q2.

And then next year as we project and we start planning next year is we're going to have a world where—well, we're going to comp a world where there's no TRU. There will be normalized Hatchimals sales because we believe it will level off this year. And we're very, very excited with not only our 2019 fall product that we're launching now, but also our 2020 product roadmap, which has some amazing new innovation that you guys will see in February.

Mark, you want to add anything?

Mark Segal

Yeah. So, Steph, just I think the second part of your question was in relation to H1 and the fact that we're actually still down year over year on gross product sales. So let me address that. I mean, we overall feel that low-single digits for the year is reasonable and appropriate. We're comfortable with that.

As I said to you in my script, Games & Puzzles, a lot of launches happening in the second half of the year. Please excuse the noise in the background. We have a lot of fire engines going by today. We have Games & Puzzles going in the second half of the year with all the movie launches. We have Go Glam and the whole activities area also launching some significant new products in the second half of the year.

And then, very importantly, you have the continued rollout of PAW Patrol, you have the continued rollout of Bakugan, and the other major franchises going on and building momentum in the second half of the year. And we're very comfortable with the engagement levels that we're seeing. And so we think that LSD for the year is a reasonable and appropriate gross product sales growth level.

Steph Wissink

All right. That's very helpful. And then I just want to unpack the realignment of the distribution a bit more. I'm trying to synthesize whether that's a function of the post-TRU landscape, so just a wider network of retailers that you're working with? Is it a function of the globalization of your business, so as you open up DCs in Eastern Europe and Russia, you're gaining more territorial expansion? Or is it based on channel evolution? And then maybe or is it also based on your multi-brand portfolio strategy where you're replacing a big power brand like a Hatchimals with a lot of other smaller brand initiatives? How should we think about the ranking of those elements to the realignment of your distribution and where you're making some investments this year, which you'll earn out in the future years?

Ben Gadbois

Actually, Stephanie, you hit them all. That's really what's happening. I think you pretty much nailed it. I think it's a mixed bag now where, obviously, our international strategy is driving a lot of result and diversification. We also see e-commerce has continued to grow. We also see emerging trends in the D2C going forward. We see our product portfolio mix is also evolving.

So it's really all of the above. And I think it's very dynamic right now on a global scale. And I think it's a really exciting time.

Steph Wissink

Great. Thank you, guys. Appreciate it.

Ben Gadbois

And just the last thing that … just one more thing I want to add, Stephanie, is that we as a company are very long-term focused when we look on our distribution. But as you know, we're very focused on product innovation. We're very focused on how we build our franchise and develop our franchise on a global scale. And we're also very focused on continuously improving and taking our business model forward on a global basis. And I think that impacts like every single element of our distribution and channels as we go forward.

Steph Wissink

Okay. Thanks, guys.

Operator

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

Brian Morrison — TD Securities

Hi. Good morning. I'll keep this short for the sake of time. Hey, Mark, just in terms of the guidance, EBITDA margin guidance, I assume that that's EBITDA margin flat is 19.3 percent inclusive of IFRS 16. Is that correct?

Mark Segal

For 2018, the actual results were around 18.6 percent ex-IFRS. Including IFRS is 19.2 percent.

Brian Morrison

Okay. Great. And then PAW Patrol, I'm trying to reconcile here. I understand the cutoff that took place and the reacceleration here. Just trying to understand the rest of the world as we enter new markets why it seems to be down year over year in Q2?

Mark Segal

So the rest of the world, specifically I think you're picking this up from the MD&A where we break it down into North America, Europe, and the rest of the world. Just keep in mind, when we talk about it on the call, we're talking about international, which is really a combination of those two. But specially, the rest of the world is lagging a little behind in terms of the relaunch of some of the new product lines that Ben described in detail earlier.

So nothing else, other than slightly later launches of the new season, which you'll start seeing changing in the third quarter and fourth quarter. And then also, yeah, that's primarily it, Brian.

Brian Morrison

Excellent. And then last question, maybe Ronnen or Ben here. It seems like you're winning a larger amount of licensed deals. And potentially they're more prolific than in prior years, I would say. It sounds like it's going to continue. Maybe just elaborate what you ascribe this to. And then in terms of the capacity to build out this footprint what is required and do you have this in place?

Ronnen Harary

I think it's a factor of a number of things. We've been developing relationships for 20 years now. And we've had a handful of licences that we've done very good. We've shown incredible performance and innovation within licences. And I think Spin Master's always been known as an innovative company, but we didn't have the global footprint. So we used to lose out to our bigger competitors. But now that we've spent so many years building out our international footprint, we're a very ideal option for the various companies.

And I think that they really—if you look at the landscape, there really is only three players that can provide a truly global international footprint, and we're one of the three now. And so that opens up a huge amount of opportunities for us. And then when you layer on top of that, here's a super-innovative company and they understand entertainment and they understand storytelling, I think that gives us a really nice competitive edge because before everybody wanted to go with us because we were super-innovative, but we didn't have the distribution. But now we have the distribution. So it's just opening up the opportunities.

Brian Morrison

Thanks very much, guys.

Operator

And your next question comes from Gerrick Johnson of BMO Capital Markets. Please go ahead.

Gerrick Johnson — BMO Capital Markets

Great. Good morning. Thank you. I have two questions here. First, can you discuss the marketing and promo strategy for Bakugan this fall? And I'm talking exclusive of content what you're doing in stores, displays, promotions because Bakugan's really a toy line that can stand on its own. And so I want to see what you're doing outside of content. Or are you just relying on the content to drive sales?

Ben Gadbois

Well, Gerrick, I can take this high-level. So Bakugan is a full integrated marketing plan where there is TV; there's digital; Ronnen talked about what we're doing from a—not just a traditional linear show broadcasting, but also what we're doing on YouTube and other platforms. There's also significant merchandising efforts at the store. There's experiential tour in the US.

So it is a fully immersed marketing plan. And it's we're not solely relying on the TV content, on the show content.

Gerrick Johnson

Okay. So I should look out for the bus tour and maybe hit that when it comes by?

Ben Gadbois

We'll save a seat for you on the bus, Gerrick.

Gerrick Johnson

All right. Thank.

Ben Gadbois

We might even have an extra costume for you.

Gerrick Johnson

Great. Thanks. Then my next question is on royalty income, actually your other income. You guys mentioned that there's a decrease in royalty income, so what are you seeing in terms of PAW Patrol out-licensing? You're seeing a decline in PAW Patrol out-licensing and what are the trends there?

Mark Segal

So, Gerrick, you're right. There has been a decline. I think it was around 8 percent for the second quarter. Most of that or a chunk of it, at least, was actually related to Hatchimals because keep in mind we had a big Hatchimals licensing program as well.

PAW Patrol L&M is stable, but I would think overall for the year it's probably going to be down relative to 2018 from an L&M perspective. We are seeing an offset, however, in relation to TV distribution income because that's now started to pick up as we deliver more Bakugan, Abby Hatcher, Rusty, and PAW Patrol episodes.

And then also, we're seeing a nice and strong growth from our app business. So there's kind of puts and takes in that area, but overall, I think, other revenues in some will be down year over year.

Gerrick Johnson

Okay. But I was just talking about just royalty income from PAW Patrol itself. Is that planned to be down for the year?

Mark Segal

It may be slightly down, Gerrick, but most of the decline will be from Hatchimals.

Gerrick Johnson

Okay. Great. Thank you, Mark.

Ben Gadbois

Thanks, Gerrick.

Operator

And your next question comes from Linda Bolton Weiser of D.A. Davidson. Please go ahead.

Linda Bolton Weiser — D.A. Davidson

Hi. Just first, I think you alluded in your commentary, a little bit to the sales adjustments being up year over year quite a bit in the quarter. Can you just give a little more colour on why that was? I know you mention timing issues. And then for the full year, would you expect that ratio as a percent of gross sales to be flattish or up or down for the full year? Thanks.

Mark Segal

Are you referring to sales allowances specifically there, Linda?

Linda Bolton Weiser

I'm referring to your … the trade promotion sales adjustments as a reduction of gross to get to net sales.

Mark Segal

Okay. So yes, you're right. There was an increase in the quarter from 8.3 percent to 6 percent—from 6 percent last year, primarily related to the timing of promotional spending. As we've discussed previously, launching a lot of new stuff around the world and so that drove a little bit of promotional spending increases in the second quarter.

I encourage you to look at sales allowances on an annualized basis. And we've consistently guided to between 10 and 12 percent on an annual basis. We're running in the 11s right now. And I expect us to be in that zone for 2019 as well. But to look at sales allowances on a quarterly basis can be a little bit challenging, just due to timing issues quarterly. So annually between 10 and 12 percent, and in our case, in the 11 to 12 percent zone for 2019.

Linda Bolton Weiser

Great. Thanks. And then the Abby Hatcher property sounds like it's going well. Can you give a little more colour on what that toy product line will be like in 2020? How broad the line will be in terms of how many categories that you'll have in terms of products going out? Thanks.

Ronnen Harary

Yeah. It's mostly going to focus on plush, interactive plush, but not like the higher-end price point of interactive, but a lower price point to bring out the funny, zany aspects of the characters, especially the Fuzzlies; dolls for Abby; and then plastic figures and roleplay. So those will be the four categories that we're going to focus on.

Linda Bolton Weiser

Okay. Thanks very much.

Ben Gadbois

Thanks, Linda.

Mark Segal

I think we're going to have time for one last question, please.

Operator

Yes. And our final question today does comes from David McFadgen of Cormark Securities. Please go ahead.

David McFadgen — Cormark Securities

Hi. Thanks for taking my question. Just a question on the Boys Action numbers; you highlighted a few products that drove these gross product sales and quite a significant increase there. I was just wondering, based on your commentary on Bakugan, it seems like it was probably driven by the other two, DreamWorks Dragons and Monster Jam, but if you could just provide any clarity on exactly what drove that increase it would be helpful?

Ben Gadbois

Hey, David. Good morning. Yeah. When you look at the portfolio in Boys and the very nice increases it's actually we have three properties that are all working very well right now. One's Monster Jam, and the second one is How to Train Your Dragon, and the third one is Bakugan. And they're all actually performing very well right now. So it's not one that's driving more than the others. It's actually very balanced.

David McFadgen

Okay. And I guess given the continuing rollout of Bakugan for the balance of the year, is your expectation that Bakugan will really pick up in the back half of the year?

Ben Gadbois

Yeah. What we'll see starting in Q3 and especially in Q4 is all the international launch kicking in. So as I mentioned all the countries earlier, you see that most of our countries around the world are literally just about ready to launch now.

So we will see a nice ramp-up going forward into the back half of the year, especially in Q4.

David McFadgen

Okay. All right. Thank you.

Ben Gadbois

Thanks, David.

Operator

And that does conclude today's conference call. Thank you very much for your participation. You may now disconnect.

Ben Gadbois

Thanks, everyone.

Mark Segal

Thank you, everyone. Bye.