

FINAL TRANSCRIPT

Spin Master Corporation

2016 Q1 Financial Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Tiffany (phon), and I will be your conference Operator today.

At this time, I would like to welcome everyone to the Spin Master 2016 Q1 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise.

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. If you would like to withdraw your question, please press the # key. Thank you.

Mr. Segal, you may begin your conference.

Mark Segal — Chief Financial Officer, Spin Master Corporation

Thank you. Good morning, and welcome to Spin Master's financial results conference call for the first quarter ended March 31, 2016. My name is Mark Segal, and I'm Spin Master's Chief Financial Officer. I'm joined this morning by Ronnen Harary, Co-Chief Executive Officer, and Ben Gadbois, Global President and Chief Operating Officer.

Following our formal remarks, we will open up the lines for your questions. For your convenience, the press release containing our first quarter financial results is available on the Investor Relations section of the Company's website, as are our Q1 MD&A and financial statements.

This information is also available on SEDAR.

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Before we start, please note that remarks on this conference call may contain forward-looking statements about Spin Master's current and future plans; expectations; intentions; results; levels of activity; performance; goals; or achievements; or any other future events or developments.

Forward-looking statements are based on information currently available to management and on estimates and assumptions made based on factors that management believe are appropriate and reasonable in the circumstances. However, there can 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 statement. 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 as a result of new information, future events, or otherwise.

For additional information on these assumptions and risks, please consult the cautionary statement regarding forward-looking information contained in the Company's earnings release dated May 11, 2016.

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

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

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Ronnen Harary — Co-Chief Executive Officer, Spin Master Corporation

Thank you, Mark. Good morning, everybody, and thanks for your interest in Spin Master.

Yesterday, we reported very strong financial results for the first quarter ended March 31, 2016. I'll begin the call with some brief highlights of our revenue and product growth before Mark provides you with a more detailed review of our financial results, including our outlook for the balance of the year. Ben will then take a few minutes to discuss our operational results.

We are very pleased to report that Q1 2016 gross product sales increased 49 percent to \$173.8 million from \$116.6 million last year. Excluding the contribution from Cardinal Industries, which was acquired in Q4 2015, gross product sales increased 33.8 percent to \$156 million.

On a business-segment basis for the quarter, gross product sales in the Activities, Games, Puzzles, and Fun Furniture segment increased 75.5 percent to \$49.7 million, primarily driven by the addition of Cardinal. Excluding Cardinal, the segment grew 12.6 percent, reflecting growth in Bunchems, our 2015 Activity Toy of the Year that we won.

In the Remote Control and Interactive Characters segment, gross product sales increased 23.2 percent to \$21.6 million, and that was resulting from strong sales of Air Hogs products, including the Star Wars Millennium Falcon, the 360 Hoverblade, and in particular, strong sales from the Air Hogs Batmobile, which was tied to the launch of the Batman v Superman movie.

Gross product sales in the Boys Action/High-Tech Construction segment decreased 14.2 percent to \$23 million, reflecting lower sales of How to Train Your Dragon and Teenage Mutant

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Ninja Turtles, partially offset by the initial shipments of toys related to Angry Birds, Secret Life of Pets, the movie, and that movie will be released shortly.

In the Pre-School and Girls segments, gross product sales maintained their very strong growth, increasing 80.9 percent to \$79.5 million. The strength reflects the continuous robust growth of Paw Patrol-related products, as well as Chubby Puppies.

The continued success of Paw Patrol highlights our entertainment strategy, both the TV show and toy line, which were developed together and are performing extremely well globally, and have established Spin Master as a major player in the pre-school segment.

We are working hard to establish Paw Patrol as an evergreen TV franchise and seeking to maximize its growth while managing our portfolio conservatively. We are looking forward to the launch of the first season of Rusty Rivets on Nickelodeon in Q3, and have a number of other exciting TV properties under development for 2017 and 2018 and beyond.

The quarter was also highlighted by the acquisitions of Etch A Sketch and EG Games, which we have discussed in detail previously.

Subsequent to the quarter-end, we completed the acquisition of Toca Boca and Sago Mini companies from the Bonnier Group in Sweden.

Toca Boca and Sago Mini are mobile game app developers which emphasize children's natural sense of curiosity, experimentation, and self-expression. Toca Boca focuses on kids aged 3 to 9, while Sago Mini focuses on pre-school age group of 2 to 5 years.

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Combined, they have over 150 million downloads and over 15 million monthly active users globally. The rationale for our acquisition was based on the reality that kids are consuming more content on mobile devices, and we want to be where the kids are.

We are particularly excited about the potential we now have to provide an end-to-end physical digital experience for kids with our proven capabilities in toys and entertainment enhanced by Toca Boca and Sago Mini's global capabilities. Toca Boca's development team is based in Stockholm, Sweden, which is the nexus of mobile digital talent in Europe. Toca Boca also has an office in San Francisco managing key customer relationships.

Going forward, our strategy with Toca Boca and Sago Mini is focused on three areas. We will continue to leverage the brand strength that comes along with 15 million users by further developing the app business, which is very successful today. The strength of Toca Boca and Sago Mini brands also represent opportunities to develop auxiliary licensing and merchandising revenue streams similar to what we're doing with Paw Patrol and other franchises.

These revenue streams are highly EBITDA accretive, and we will also continue to invest in Toca TV, a subscription-based video streaming business, which we'll launch in Canada in 2016 and in the United States in 2017.

It will offer something different to the market and very much in line with Toca Boca's brand promise, which is to allow kids to explore and to learn in a creative, safe, healthy mobile

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environment. Finally, in the near future, we will develop a Toca Boca and Sago Mini physical toy line based on existing content and content to be developed.

Overall, we are very pleased with our performance in the first quarter. With our base business performing well and a great pipeline of new toys and entertainment properties, we are set up for another very good year.

I'll now hand it over to Mark Segal, our Chief Financial Officer, to review our financial results in more detail.

Mark Segal

Thanks, Ronnen. In Q1 2016, our revenues increased 51.9 percent from last year, growing from 106.5 million to 161.7 million.

Revenue growth was enhanced by the addition of Cardinal, which was acquired in Q4 2015. Excluding Cardinal, revenue increased 35.8 percent on a year-over-year basis.

FX headwinds reduced overall revenue by \$2.1 million. In constant currency terms, revenue increased by 53.8 percent compared to 2015.

As Ronnen highlighted, Q1 2016 gross product sales increased 49 percent to \$173.8 million from \$116.6 million last year. Excluding the acquisition of Cardinal, gross product sales increased 33.8 percent to 156 million.

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On a geographic basis, Spin Master's strong global platform drove gross product sales increases of 58.3 percent in North America, 53.1 percent in the rest of the world, and 23.6 percent in Europe.

Other revenue, which primarily reflects merchandising royalty and television distribution income from products marketed by third parties using Spin Master's owned intellectual property, increased 68 percent from \$3.6 million in Q1 2015 to \$6 million this quarter.

Our gross profit for 2016 Q1 increased to \$85.4 million, representing 52.8 percent of revenue compared with 56.7 million, or 53.3 percent of revenue last year. The 0.5 percent reduction in gross margin was primarily attributable to the increase in Cardinal sales, offset by increased merchandise royalty income from sales of product under owned brands, as well as productivity initiatives.

Total SG&A expenses for the first quarter of 2016 were 74.2 million, up 41.6 percent from 52.4 million last year. SG&A in Q1 represented 45.9 percent of revenue compared to 49.2 percent last year, reflecting the Company's strong operating leverage.

Within SG&A, marketing expenses represented 8.7 percent of revenue compared with 7.6 percent last year, primarily as a result of increased media spending supporting new product launches, as well as increased market research and strategy spend.

Product development expenses were 2.2 percent of revenue compared with 3 percent in Q1 2015, due to the timing of development projects.

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Selling expenses represented 6.4 percent of revenue versus 5.7 percent last year, driven by licensing royalties due to a higher proportion of revenue arising from licensed products.

Distribution expenses were 3.3 percent of revenue compared with 4.9 percent in Q1 2015. The reduction was driven by economies of scale and from a onetime warehouse move expense in Q1 2015.

Admin expenses represented 25.2 percent of revenue versus 28 percent last year. Excluding the impact of share-based compensation, admin expenses as a percentage of revenue was significantly lower in the quarter at 21 percent compared with 28 percent in Q1 2015. The improvement reflects the Company's continued positive operating leverage.

All of this resulted in net income of \$9.9 million, or \$0.10 per share, which was up substantially from \$1.7 million last year. Adjusted net income in Q1 2016 was 11.6 million, or \$0.12 per share, significantly above 2015 level of 3.4 million.

Adjusted EBITDA for Q1 2016 was very strong, increasing 135.2 percent to \$24 million from \$10.2 million last year. Adjusted EBITDA margins increased to 14.8 percent compared with 9.6 percent last year.

The growth in adjusted EBITDA margins resulted from increased sales of product under owned brands, increased licensing and merchandising income, and positive operating leverage.

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Free cash flow was \$16.4 million in Q1 2016 compared to negative 8.2 million during Q1 last year. The increase is attributable to higher profitability from operating activities, partially offset by increased investing activities.

Regarding the Toca Boca and Sago Mini acquisitions that Ronnen referenced earlier, the transaction closed on May the 2, 2016, and was financed by a drawdown on our committed term-loan facility. We will provide more details on the transaction when we report our Q2 results in early August.

Turning now to our outlook for 2016. For the full year, Spin Master now expects organic gross product sales growth to be above our previous guidance provided in connection with the release of fiscal 2015 results in March 2016, which if you recall was at the upper end of the Company's long-term growth target range of mid- to high-single digits. We now expect gross product sales to grow in the mid-teens relative to 2015.

From a seasonality perspective, we expects gross product sales for the first half of 2016 to vary from historic seasonality patterns and previous guidance, which was at the high end of the typical seasonality range of 25 to 30 percent of total gross product sales.

We now expect gross product sales for the first half of 2016 to represent between 30 percent and 35 percent of total gross product sales for 2016. Adjusted EBITDA margins for 2016 will be consistent with prior guidance and comparable to 2015.

I'd now like to turn it over to Bed Gadbois. Ben?

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Ben Gadbois — Global President and Chief Operating Officer, Spin Master Corporation

Thank you, Mark. Overall, we're very pleased with the financial and operating performance of the Company for Q1 2016. There were a number of factors that influenced our strong performance. Let me walk you through these briefly.

As we discussed previously, the improvement in operational efficiencies which resulted in the acceleration of shipment in 2015 from Q4 into Q3, improved product sell-through for the Christmas period. We also had the expectation that this improvement would set us up for strong first half of 2016 as we refilled customer inventories.

That is what has occurred, and it contributed materially to our strong Q1 results.

This is particularly evident in the sales of Paw Patrol, which continues to show strong momentum globally and generated significant growth relative to 2015. Keep in mind, however, that on a year-over-year basis, Paw Patrol was only launched internationally in early 2015, so Q1 2015 did not reflect the momentum that has now developed.

In Q4 2015, Paw Patrol sell-through was higher than expected, creating significant replenishment in Q1 2016. It is important to note that in most major markets in Europe, Paw Patrol is airing Season 2 for 2016; Season 3 is running in North America for 2016; Season 4 is in production and will air in North America in 2017; and Season 5 is currently in development.

We're continuing to invest in keeping the Paw Patrol content fresh, with new characters and themes in order to increase the longevity of the franchise. Paw Patrol continues to generate

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high ratings, crosses many cultural boundaries, and has strong support from our partners globally. There are also opportunities to extend Paw Patrol into new markets, such as Asia, which has not yet been launched.

In addition to the growth of Paw Patrol, the initial shipment for Angry Birds and Secret Life of Pets, which we have the global master toy licence for, occurred in Q1 2016 in anticipation of the upcoming movie launches. It is unusual to have two master toy licences both shipping in Q1. This did not happen in Q1 2015.

As Mark mentioned, Cardinal shipments were approximately 17 million in Q1 2016. We're pleased with the integration of Cardinal, and continue to execute on many opportunities to grow Cardinal globally, particularly in Europe.

I also want to call out that although Easter was one week early this year coming into Q1 instead of Q2, the timing did not drive much additional volume because we shipped most of our goods earlier in the quarter. The timing of Easter did, however, drive increased marketing spend in the quarter.

I'd like to briefly review our four key growth strategies and some of the initial initiatives we're undertaking to execute them.

Our first growth strategy, to continue to innovate the core, relies on our ability to consistently infuse innovation into our portfolio of brands and products. Our internal 36-month

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brand innovation process facilitates the product development necessary for sustainable profitability.

For example, Air Hogs is a long-established brand, but new products like the Millennium Falcon, Batmobile, and Hoverblade continues to inject new life into the brand. We continue to be hard at work on a strong innovation pipeline across all of our business' segment for 2017, 2018, and 2019.

Our second growth strategy is to significantly grow our international sales. We are targeting international sales of 35 to 40 percent of our total sales in the medium term. At the end of 2015, our international sales represented 30 percent of total gross product sales.

In the first quarter, we continued to see strong international sales penetration, particularly in the rest of the world outside of Europe, which grew at over 53 percent compared to 2015. We are confident that we will continue to grow international sales in 2016 in line with our growth target.

In May, we announced the formation of an Australian subsidiary, Spin Master Australia. Spin Master Australia will begin selling products directly to our customers in 2017, and will assume distribution of the majority of our brand for Australia, which had previously been managed by third-party distributors.

This development is an important part of our overall international growth strategy and allows us to increase sales and margin through the direct control of our customer relationships, end

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marketing activities, and key strategic markets. We have other international markets in the works that will be announced when appropriate.

Third, we continue to develop evergreen global entertainment properties. As Ronnen previously mentioned, our entertainment group plans to launch one to two new properties every year, and we are actively working on new shows integrated with our toy lines.

We have a strong pipeline building on key relationships with Nickelodeon and other key European broadcasters. In addition to Rusty Rivets, which is launching in Q3, we are also preparing for the launch of Abby Hatcher Monster Catcher next year and the relaunch of Bakugan.

I want to come back for a moment and discuss Paw Patrol in the context of our growth strategy and how we manage the business as a whole.

We are constantly working to elevate Paw Patrol into an evergreen franchise with new content and world-class partners. I want to stress, however, that despite Paw Patrol's success, we are continuing to carefully manage our entire business on a portfolio basis in line with our 36-month forward-looking brand innovative pipeline.

We are especially focused on the need to drive diversified balanced revenue growth, as well as manage fixed and overall costs conservatively.

Fourth, we intend to further leverage our global platform through strategic acquisition. We're looking for opportunities to acquire brands, fuse these newly acquired brands with our innovation capabilities, and drive growth in sales and margin by leveraging our global infrastructure.

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We are very excited about the acquisition of Toca Boca and Sago Mini not just for the in-house capabilities the acquisition provides us. We are very enthusiastic about the prospect of collaborating with such a creative team of developers to fuse Toca Boca and Sago Mini's expertise with our own capabilities.

The companies will run separately for the moment. Over time, we will evaluate how to best leverage their strength across Spin Master's global platform.

Finally, I want to conclude with a comment on our focus on driving productivity and improvement across the entire organization. This constant focus fosters a strong result-driven culture that will allow us to continue to execute our growth strategy.

That concludes our formal remarks at this time. Ronnen, Mark, and I will now be pleased to answer your questions.

Operator, you can open the line.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, please press *, followed by the number 1 on your telephone keypad.

Your first question comes from the line of Sabahat Khan with RBC Capital Markets. Your line is open.

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**Sabahat Khan — RBC Capital Markets**

All right. Thanks. Just on the contribution from licences in Q1 that you highlighted, do you still expect these three to continue to contribute in Q2? And if you could highlight which other licences you'll be starting to ship in during the quarter?

Ben Gadbois

Yeah. Good morning, Sabahat. Yeah. So we had the initial shipment at the end of Q1, so these licences that were mentioned we'll see more sales into Q2. And we will also start shipping other licences, such as Powerpuff Girls. We will ship some on Star Trek. And we have like a whole slate.

We will ship some on our Meccano brands. We have some Lamborghini; Boeing; Ducati; Ferrari. We will have a game called Zootopia that will ship as well, which will be tied to a movie later in the year. So we have a full slate that will also ship in Q2, as well as Q3 going forward.

Sabahat Khan

All right. Thanks. And just a question on the EBITDA margins, and they're up obviously quite a bit in Q1, and your full year guidance is for flat versus last year. So how should we think about the upcoming quarters? Is there a quarter where you might have some outside costs? Or just in terms of trajectory for the rest of the year?

Mark Segal

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Okay. Sabahat, so let me just—let me go through that with you, but before I get into the specifics, I just want to remind everyone about our three-step guidance process.

We gave you initial guidance in March for the year. And we are now in May updating that guidance based on what we saw in Q1 and in April. And so we're now updating that for the year.

We're then going to update the guidance again in August. And the difference between now and August is when we actually have a significant amount of our orders coming in for the year. And so we have a much better sense of volume for the year. We'll have a much better sense of our licencing and merch income.

We'll also get a better sense of what our media plans are going to look like because we don't actually set end those until the mid-part of the year. And marketing is obviously a pretty significant cost.

We'll also have a bit of sense of our mix of owned IP versus trademark properties. And as well, we'll also have a better sense of how Toca Boca is going to affect our P&L for 2016.

Having said all of that, we took the view that at this point we're comfortable saying that adjusted EBITDA margins for 2016 are going to be consistent with our previous guidance and consistent with 2015.

Sabahat Khan

All right. Thanks. And then just one last one for me on the Cardinal acquisition; it looks like it's tracking ahead of last year in terms of sales. Was it growth across maybe North America that

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helped that? Or is it the international contribution is much stronger than we might have expected going into the quarter?

Mark Segal

So, Sabahat, we're very pleased with Cardinal's contribution to our Q1 sales. The Q1 figure includes the impact of initiatives we've undertaken to increase the overall sales of the Cardinal business.

Let me break it down to you in three different areas. Firstly, we've professionalized the Cardinal operation. Cardinal was very much an entrepreneurial-run organization, and we've brought into Spin Master's sales and operational infrastructure. And major customers like Walmart, Target, and Toys "R" Us have responded very favourably to that.

We also saw in the quarter, and will see for the remainder of the year, the impact of building the FOB sales business out of Hong Kong. We acquired these rights, but we basically have spent the last eight months building the infrastructure in Hong Kong to execute that. When we actually provided initial guidance to you, we were very conservative in our projections on that because we just did not know how it would go.

So we actually have seen some positive results starting to emerge on that. And we've also started to see the results of the expansion into Europe that we talked about previously. Now we didn't generate a significant amount of sales in Q1 in Europe, but we are starting to see some sales

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starting to emerge. And we are very happy about the way things are going, both in FOB terms and also in our expansion in Europe.

Cardinal, the increase in Cardinal that I've just discussed above, is one of the reasons we increased the outlook for 2016. And also just to remind you what I said previously, we will continue to break out Cardinal sales for Q1 to Q3 of 2016, but after that we're simply going to roll that into our Activities, Games, and Puzzles segment because then our quarter-over-quarter comparisons will be fully comparable.

Sabahat Khan

Thank you.

Operator

Your next question comes from the line of Adam Shine with National Bank. Your line is open.

Adam Shine — National Bank Financial

Thanks a lot. Good morning. So very strong results; one item I just want to clarify, if you don't mind, Mark, the Cardinal gross product sales are implied at about 17.8 million. If I turn to pages 12 and 13 of the MD&A, obviously I see revenues at 9.5 million, and wondering am I either missing something or maybe you could explain some of the outsized gap gross product sales to revenue?

Mark Segal

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I think in the MD&A the reference is only to US sales. Is that correct?

Adam Shine

Okay.

Mark Segal

Let me just clarify that, Adam. Give me one second, please. Yeah. That actually refers only to domestic US sales. That's the number that you're looking at there for the 9.5 million.

Adam Shine

Okay. Thank you...

Mark Segal

Afterwards.

Adam Shine

Okay. No, I appreciate that because that gives a lot better with what you gave as the organic growth profile earlier. Next step, when I look to the big jump at Walmart at, I think, 92 percent or so, part of it might be related to Cardinal as well. But could you explain a little bit further, there might have been some timing issues last year versus what might be going on this year?

Mark Segal

Okay. So there were three issues that affected our top three customers. Obviously, Walmart had significant growth, and I'll pass it over to Ben to describe that. But the top three comprised 56 percent in Q1 compared to 54 percent in 2015. That was driven by Cardinal because a

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lot of the growth was domestic US. We also had the movies, Angry Birds and Secret Life of Pets, which the top three leaned in very heavily on, and also on Paw Patrol, which the top three leaned in very heavily on.

In connection with Walmart, Ben would you like to?

Ben Gadbois

Yeah. And just in addition to what Mark just said, Adam, I think it's really important to note that in last year in Q4 we made deliberate effort to make sure that across all of our market we inventory in a very, very lean position.

And what we're seeing across most of our market, including Walmart, is very strong replenishment in Q1 across most of our portfolio. And we also have properties that are doing extremely well now like Bunchems, Kinetic Foam, and Sand. And we've had strong replenishment on some of our key brands. Air Hog Millennium Falcon continues to do well. We had the Batman v Superman movie with the Batmobile; nice shipment through the market. And Mark mentioned the other ones.

So overall, the strong replenishment that you see across the market are due to us managing the ending inventory in Q4 very, very closely to POS.

Adam Shine

Great. No, thanks for that. Okay. That's it for me.

Ben Gadbois

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Thanks, Adam.

Operator

Your next question comes from the line of Brian Morrison with TD Securities. Your line is open.

Brian Morrison — TD Securities

Good morning, guys; very nice quarter. Clearly the channels were very clean to start the year. I'm wondering at what point do you get additional visibility or do you have visibility at this point in time as to whether you'll be able to pull sales forward into Q3 again this year?

Ben Gadbois

I think, Brian, as far of all the operating efficiencies that we're creating in the Company, our goal and target is to make sure that every year we maintain these efficiencies and we keep improving in all areas of the business. So today I think, as Mark pointed out, we need a few more months to see how everything is shaping up because we're right in the middle of developing the products and making sure that we narrow down our shipment windows.

But our goal, again, I can say is to continuously improve every year versus the prior year.

Brian Morrison

Okay. Second question, and maybe this is for Ben or Ronnen. You've done a good job on the call here addressing Paw Patrol. It continues to hit the ball out of the park. It's become obviously fairly material, so I'm just wondering if you can go into more detail how you see and monitor the

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duration of this hit? And as Ronnen alluded to, how do you plan on the timing of a number of new entertainment developments for '17, '18, and beyond as Paw Patrol potentially tapers, whether it's one, two, three, four years down the road?

Ronnen Harary

Yeah. Hey, Brian; how are you?

Brian Morrison

Good, thanks.

Ronnen Harary

It's a good question. For us, I mean the first thing that we do is we look at history, and we're trying to look at comparable properties that have achieved long-term success. So we're looking to properties like Dora the Explorer that's been on air for 16 years; Thomas the Tank that's been on the air for 30 years, actually; Peppa Pig, which is 12 years; and shows that have both been able to continue to generate strong ratings year-in, year-out and also have been able to generate and maintain strong licensing, merchandising, and toy programs over the years.

And we feel very fortunate where Paw Patrol is resonating with kids not only in North America, but globally in every territory around the world and is resonating in a very deep way. And we feel it resonates for a number of reasons. One is the characters, just the deep love of the characters, the six dogs and their friends, and then the inherent play pattern which is built into the

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property, which is all the vehicles and transformation and rescue and doing good things in the world.

And so following on from my initial comments, when you look at the other great properties in history, they were always fuelled by new episodes every single year. And so that's our focus is every single year to come to the market with fresh seasons; new story lines; enhancing the characters; the themes; specials throughout the years; movies; and working very closely with the broadcasters.

And we're very fortunate, as Ben mentioned before, Europe now is in Season 2 for 2016; the United States and Canada are in Season 3; Season 4 is in production and will start next year in North America and then will be in 2018 in Europe; and we are in development of Season 5 currently right now.

So for us we have a mantra internally, which is Paw for 10, and we're working very hard to build a base-level twin like in business to sustain the franchise in the long term. And so we're very focused on that.

So it's a combination of making sure that there's great shows every single year; make sure that we have the broadcast platform to get those shows out to the kids; and then from the licensing and merchandising side to manage those licensees properly, and also make sure there's innovative new product that's being brought to market.

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And for us, it's really important that unlike Bakugan, which was a different type of property; it was in Boys Action, which has a much higher spike and a shorter life span—pre-school properties, if you can hit the right pre-school properties they have a much longer life span—and we've learnt a lot of stuff from the days of Bakugan because when we did Bakugan that was it. But now because we've been in the entertainment business for a number of years we also have a very rich bench or slate of other shows that are in development.

And we believe that that portfolio approach of bringing other shows out every single year; we made that commitment to do one to two shows every single year over and above the shows that are in the marketplace. And we're able to deliver on that with Rusty Rivets, which is launching this August on Nickelodeon and then Abby Hatcher, again, which is in partnership with Nickelodeon in 2018 and—sorry, in 2017, and then other boys action shows that are coming down the pipeline.

So we feel very comfortable that we have a really rich slate that gives us a balanced portfolio in this area over and above Paw Patrol.

Brian Morrison

That's very thorough. Thanks very much.

Operator

Your next question comes from the line of Garrett Johnson with BMO Capital Markets.

Your line is open.

Garrett Johnson — BMO Capital Markets

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All right. Good morning, everybody. Hey, Mark, you said that Cardinal was a reason for your lift in guidance, but isn't your sales guidance in regard to organic sales? So I just want to be clear, is Cardinal considered organic? Or is it not?

Mark Segal

Yeah. So, Garrett, thanks. Yeah. I think it was certainly part of a component of the raise in our guidance, but let me just explain to you the methodology that I'm using to provide guidance here.

The new guidance that we gave you was for mid-teens growth over 2015 gross product sales. Gross product sales ended 2015 at just under 983 million, so the mid-teens that we're talking about applies to that number. And in terms of the methodology I'm using would just include the sales of Cardinal.

In March when we did our year-end, I also said to you that there'd be some small sales from the acquisitions of Etch A Sketch at around 9 million to \$11 million at the time and EG of around 5 to 7. So that would be on top of that guidance formula that I just described to you previously.

Does that clarify it for you?

Garrett Johnson

Sure. It does. Now can we have one more bucket, the contribution from Toca Boca and Sago Mini?

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Mark Segal

Sago Mini. Yeah.

Garrett Johnson

Yeah.

Mark Segal

So we haven't actually provided specific guidance on that yet. We've literally just closed the acquisition. But what I can tell you is that there are really three buckets that drive the acquisition, so let me just walk you through those three briefly.

The first is the existing game app business, which actually does generate revenue and EBITDA currently. It's relatively immaterial at this point, but it will flow through other income and it will be positive.

Then we're also going to be investing in the Toca TV initiative, as Ronnen described earlier. That initiative is going to be treated the same way that we treat our entertainment properties, which is really we're going to put it on the balance sheet; it's going to be capitalized as an intangible and then amortized when we actually start delivering the episodes over the year. And then the toy line that we're developing and will develop for Sago Mini and Toca Boca will really have no impact for 2016 and likely minimal impact for 2017.

Garrett Johnson

Okay.

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**Mark Segal**

So overall, Garrett, I think the impact of the acquisition on the P&L and balance sheet for 2016 is going to be relatively muted, other than the drawdown of the term loan, obviously, which will show up in our debt for 2016.

Garrett Johnson

Okay. Very good. And hey, Ben, when you were mentioning all the licensed products that you're shipping you failed to mention Teenage Mutant Ninja Turtles. That's June 3rd. Don't you have the international licence for that? And if so, did that ship already? Or is that a 2Q event?

Ben Gadbois

Yeah. It's actually—you are correct, Garrett. I only mentioned a few of them, but you're correct. We have the licence for Canada and Mexico for that property, and it will be in Q2.

Garrett Johnson

Canada and Mexico. Okay.

Ben Gadbois

Correct.

Garrett Johnson

And then lastly, as much as you can provide, how big is the Australia business? How big can it be? Maybe some more details on what you've got going on over there?

Mark Segal

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Yeah. I don't want to be too specific on that yet, Garrett.

Garrett Johnson

Sure.

Mark Segal

But what I can tell you is that from a—look, firstly the impact of the Australia investment that we're making is only going to be in 2017. And really what the impact is going to be is the incremental difference between the business that we're doing currently now with our third-party distributors and the volume that we'll be doing directly when we actually start selling directly.

So it's really going to be the incremental impact of that, which we'll discuss more in 2017.

Garrett Johnson

Yeah.

Mark Segal

Ben, you want to add something to that?

Ben Gadbois

Yeah. The only thing, Garrett, is you know the industry really well. Australia is a \$1.4 billion market approximately, and we expect like in every market that we are in and we enter to get our fair share of the market.

Garrett Johnson

Okay. All right. Very good. Thank you, guys.

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Ben Gadbois

Thanks, Garrett.

Operator

As a reminder, to ask a question, please press *, followed by the number 1 on your telephone keypad.

Your next question comes from the line of Stephanie Wissink with Piper Jaffray. Your line is open.

Stephanie Wissink — Piper Jaffray

Thanks. Good morning, everyone, and congrats on a great quarter.

Mark Segal

Thank you.

Stephanie Wissink

I just had a follow-up on an earlier question on Paw Patrol. I think you mentioned that the goal is to move it into an evergreen status. Maybe help us think about what would be the signs to you that it would be reaching evergreen? Is it just continuity or consistency? Feedback from the channel? What essentially triggers that signature insignia as an evergreen brand?

Ronnen Harary

Yeah. I think the first thing you look for is the ratings and the viewership and broadcast support because that's the most important thing is that the kids are actually viewing the content.

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And so the ratings for Paw Patrol continue to be extremely high on Nickelodeon, and they continue to be high on broadcasters all around the world.

And the appetite and the amount of seasons that you're able to deliver to the marketplace is really important. And so the fact that we are in production of Season 4; we're producing specials for next year; we're in development of Season 5; and all the broadcasters are fully in support of acquiring all the upcoming seasons, that gives us the confidence that at the end of the day the broadcaster that is touching the consumer, which is really important which is the kids, they feel that the kids' interest level is they're deeply engaged. And so that's the positive signs that we're looking for on top of the POS, which is very strong and the desire for people to want all sorts of product lines associated with the franchise.

Ben, did you want to add anything?

Ben Gadbois

Yeah. And maybe one more thing to add, Stephanie, is that in order to ensure that all the ratings continue to connect with the kids, what we do internally is we have a very elaborate system of metrics by which on all of the key markets every month we measure the shipment in the POS, as well as the beginning inventory for the month and the ending inventory for the month.

And we do that at the item level to understand the mix in the marketplace, as well by geography. So we're constantly monitoring, like Ronnen says, the rating, as well as the POS sell-

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through at market. So there's a lot of process behind the scenes to make sure that we stay on top of any further development that could happen with the property.

Stephanie Wissink

Thank you. That's really helpful. And then just a follow-up, as you think about segmentation and maybe you talked to Rusty Rivets and Abby Hatcher Monster Catcher, are those two new properties likely slightly higher in age? And then how are you thinking about some of your other technology-based initiatives in terms of ageing up your consumer reach?

Ronnen Harary

Yeah. No, those are great questions. Rusty Rivets and Abby Hatcher Monster Catcher are also pre-school properties, so they're in the same target age group as Paw Patrol. So kids that are 2 to 5; potentially they could stretch a little bit to 6 or 7 and have good co-viewing with the parents, which is another amazing thing about Paw Patrol is that it stretches in age and parents love watching it, and they don't get annoyed by it. So that's another strong thing about Paw Patrol, but they are also the same demographic.

But the thing about those shows is they come at storytelling from a different perspective. So with Rusty Rivets it truly is the first-ever show to capitalize on the maker movement and on the STEM for pre-schools.

And so you guys will see the inherent in the actual show is the ability for kids to take different parts, put them together, and create this awesome dinosaur or this awesome dinosaur

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that's got jet-packs on him, or an awesome spider with a twirling drill on the front. And it's all about taking these parts, putting them together, and creating these amazing things.

And then what they build actually they get to play out in the episodes. And so it's a bit more about engineering and it's a bit more about STEM. And I'm very proud of the fact that we'll be the first pre-school show that will be building on the movement that's very robust and in the zeitgeist right now in North America.

And the toy line itself is going to be very much easy for kids to put together, but very creative at the same time. And so that's a bit of a different play pattern, and it's going to be completely gender neutral. You have Rusty and you have his sister Ruby and they're both stars of the show, and so it's really focused on boys and girls.

And then with Abby Hatcher Monster Catcher, again, it's the same core demographic, but it comes at storytelling from a different place. It's more about relationships. It's more about these characters in this world and Abby and emotions. And it's a lot about Abby, and she's a true individual, and we're doing certain things in the show that have never been done before in terms of her ability to shine as an individual, and to encourage kids to feel proud about whatever they want to be, or whatever they want to become and how they want to express themselves.

It's all about expression, self-expression, so it's very different from our other shows. And we think there's a place in society for a show like that for kids that was sending a very positive message out there. So we're always looking for white space. That's our mantra when we develop

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entertainment: where's the white space in the marketplace from a storytelling perspective that will resonate to kids that's not being taken up by a Disney or a Nickelodeon or other people out there.

And then your second question was?

Stephanie Wissink

Age segmentation and how you're thinking about kind of ageing up with some of your technology?

Ronnen Harary

You asked about technology. We're definitely, when you look at Meccano, that's really bringing kids in at a higher age group because to put together things like the Meccanoid takes a long time and a lot of great parent interactions with their kids to put the stuff together.

You look at something like Air Hogs Connect, which is a great platform that we put together, which is really fusing together augmented reality with flying toys, and we feel that that's going to move the age group up.

You have some amazing things happening with Zoomer in terms of robotics, and you also have things like the BB-8 coming out, which will also bring in some older kids into our products.

Stephanie Wissink

Thank you.

Operator

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There are no further questions in queue at this time. I turn the conference back over to our presenters.

Mark Segal

Okay. Well, thank you, everyone. If there are no further questions, we will now end the call. Thank you very much for participating.

Operator

This concludes today's conference call. You may now disconnect.

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