Spin Master Corp.

First Quarter 2019 Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Scott, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Spin Master First Quarter 2019 Earnings 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, press the # key.

Thank you. Sophia Bisoukis, you may begin your conference.

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

Thank you, Scott. Good morning, everybody, and welcome to Spin Master's first 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 first quarter 2019 are available on our Investor Relations section of our website at spinster.com and on SEDAR.

Before we begin, please note that remarks on this conference may contain forward-looking statements about Spin Master's current and future plans; expectations; intentions; results; levels of activity; performance, goals, or achievements; or any other future events or developments. Forward-looking statements are based on information currently available to management and on estimates and assumptions made based on factors that management believes are appropriate and reasonable in the circumstances.

However, there can be no assurance that such estimates and assumptions will prove to be correct. Many factors could cause actual results to differ materially from those expressed or implied by the forward-looking statements. As a result, Spin Master cannot guarantee that any forward-looking statements will materialize, and you are cautioned not to place due 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 our cautionary statements regarding forward-looking information contained in the Company's earnings release dated May 8, 2019.

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

Also today, we will be ending our call promptly at 10:30 a.m. in order to attend our AGM, which will be at 11:00 a.m.

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

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

Thanks, Sophia, and good morning. We expected our first quarter to be challenging, and it was. 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.

Despite our Q1 results, our ability to create multiple consumer touch points, including physical products, traditional and innovative entertainment content, and mobile games, has strengthened parents' and kids' attachment to our brands and franchises and positioned us for solid long-term growth.

It is important that we remind everyone of the seasonality of our business. The industry operates on the basis of the spring and fall seasons, which correspond to H1 and H2 from a calendar perspective. This half-year perspective is the way both we, and our customers, manage the toy business.

While quarters are important in public markets, we also encourage you to focus on measuring our performance on a semiannual basis.

We're very encouraged by our 2019 product line, which includes many exciting and innovative upcoming launches. These will begin shipping in late Q2 for the fall season.

Q1 saw a number of successful toy-likeness partnership launches, including Monster Jam and How to Train a (sic) [Your] Dragon and our relaunch of Bakugan toy and TV franchise and Abby Hatcher, our new global preschool TV show.

We remain very focused on growing our entertainment business through multiple avenues, including our own proprietary shows and through our willingness to partner with other content creators to build a portfolio of alliance brands.

The creation and ownership of integrated entertainment and toy properties supports enhanced profitability by allowing us to diversify our revenue stream. In 2019 and beyond, we will see an emphasis on expanding formats and themes.

We will continue to refresh PAW Patrol's compelling content. The season 5 Ultimate Rescue theme will end in early Q2, and in late Q2 we will launch a new season of episodes and theme products based on the season 6 Mighty Paw (sic) [Pup] concepts. Mark and Ben will both discuss this later, and the cutover between seasons will have an impact on our PAW Patrol performance in the first half of 2019.

The quality of the PAW Patrol content is being recognized globally. This year we won three Canadian screen awards for animation: Best Animated Program, Best Sound, and Best Original Music. We were also honoured to receive Daytime Emmy Award nominations for both PAW Patrol and Rusty Rivets. PAW Patrol Mighty Pups, our 44-minute special that aired in late 2018, received an Emmy nomination for Outstanding Special Class Animated Program.

We are well underway on the scripts and production for the first-ever theatrical animated PAW Patrol film, which we'll be targeting for release in 2021. We believe PAW Patrol will set the foundation for other properties that follow onto the big screen.

Following launch this past January, Abby Hatcher continues to delight kids and perform well in the ratings. Abby currently sits within the top five preschool shows on Nickelodeon. We are very pleased with how the show is resonating with all genders. We look forward to the global rollout though 2019, and to the second season of Abby Hatcher in 2020, which is currently in production.

We continue to build our library of content, including an exciting new preschool show, which will launch in 2020, and which we will provide details on later in the year. All of this demonstrates our ability to push the boundaries of quality children entertainment, and we are well on our way to becoming a leader in the character-based preschool category.

The Boys Action category highlights the diversity of both internally generated franchises, along with our strong and growing portfolio of licensed products, giving us the broad opportunity to design and develop toys for kids globally in multiple categories and genres.

For 2019, our Boys area is anchored by three major properties: the relaunch of Bakugan and our toy licensing partnership with Monster Jam and How to Train a (sic) [Your] Dragon. This quarter saw successful launches for all three.

We relaunched Bakugan in early Q1 in North America and Australia. In April, we launched Bakugan in Japan, together with Takaratomy and TV Tokyo, and we'll be relaunching Bakugan in Europe and for the rest of the world during the balance of 2019.

We are taking a long-term view with the Bakugan franchise. So far we are very happy with the initial response to our launch of both the toys and the show. It started with the launch of the TV show on Cartoon Network, and awareness is also building through our digital platform.

Since we first introduced Bakugan in 2007, the media landscape has undergone tremendous change. Boys particularly within this age group are watching content across a number of 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.

We are already active on YouTube, using key influencers to build awareness. We will be launching Bakugan on YouTube with full-length episodes and original YouTube content from July onwards. This approach will help us to reach more kids where they're spending their viewing time and drive incremental awareness.

The strength of our global platform is the foundation for optimization of the Bakugan brand, and we'll be incorporating learnings from each market as we continue to roll out the franchise globally.

Spin Master's global scale and international infrastructure, combined with our diversified and innovative product capabilities, represent a valuable asset when competing for new product opportunities and licensing.

Our current year's success, combined with a multiyear deal with DC Comics and Warner Brothers launching in January 2020, has positioned us well for growth. The DC Entertainment licence agreement adds to Spin Master's strong portfolio of licensed product, and our team is already developing an innovative and differentiated product line. There will be new and exciting licensing agreement announcements to follow in the near future.

After the quarter, we continued with an important streamlining of some of our operations, which Ben will describe in more detail a little later. We're in the process of executing and restructuring of three key acquisitions: Swimways, GUND, and Cardinal, as well as our Games business in LA. This has resulted in the creation of Spin Master East in New York.

Similar to the creation of our product development and marketing infrastructure in Los Angeles in 2007, the new Spin Master East is a fundamental building block of our long-term innovation strategy. There are many areas where we'll be able to drive benefits by operating in the same space. New York is a creative hotbed, and we are already attaching high-quality talent to drive these business. Spin Master East will allow for infrastructure cost savings though the combined facility.

In the mobile digital area, Sago Mini has converted a meaningful portion of its business from stand-alone app sales to subscription-based app sales, and now has over 87,000 subscribers. Though relatively small at this point, this indicates the affinity that millennial parents have for Sago Mini content.

Going forward, we'll focus on direct consumer activities with Sago, including integrated entertainment to turn Sago into a more entertainment-based franchise. We'll elaborate further on this in the coming quarters.

In addition, both Toca Boca's development team in Sweden and Sago Mini studio in Toronto will start making mobile games … digital games for Spin Master franchises and brands.

In conclusion, we remain very confident in our long-term platform for growth, and are excited about the potential of our innovative 2019 lineup. We are maintaining our outlook for 2019, and expect that the balance of the year will be more reflective of the underlying strength of our business.

So with that, I'll now turn it over to Mark.

Mark Segal — Chief Financial Officer, Spin Master Corp.

Thanks, Ronnen, and good morning. As expected, 2019 began with a challenging and noisy quarter relative to the strong quarter we had in 2018.

Our Q1 results were affected by the loss of Toys "R" Us volume and the shift in the timing of Easter, amongst other factors which I'll review with you shortly.

Generally, the first quarter of each year is our seasonally lowest period of shipments and the least profitable because our lower volume causes deleveraging. This was more pronounced in this quarter than prior quarters.

We were still shipping to TRU for most of the first quarter of 2018. Our Q1 '18 gross product sales to the TRU entities that went into bankruptcy were a little over $20 million, and some of that lost revenue has not yet been fully absorbed by other retailers, especially in the seasonally lower Q1 time frame.

In addition, the timing of Easter shifted approximately $20 million of gross product sales from this quarter into the next quarter. This resulted in a reduction of our gross product sales of 16.5 percent in the first quarter. In addition, gross product sales decreased by 6 million for the quarter, arising from changes in currency rates. Excluding foreign exchange, gross product sales decreased by 14.5 percent. This quarter includes the sales of GUND product of approximately $14 million.

In addition to the two industry-wide challenges that affected our quarter, we were also up against difficult comparisons to 2018, specific to our product shipment profile. Q1 2018 was an unusually high quarter in terms of our normal seasonality of sales. In Q1 last year, we saw a double-digit increase in the RC and Interactive Characters business segment, let by Hatchimals, as well as the growth for PAW Patrol in the Preschool and Girls business segment, partially driven by TRU.

In Q1 2018, Hatchimals benefitted from a significant carryover of demand for the large egg from Q4 2017, as well as the introduction of a low price-point large egg specifically for Easter 2018. As we have said for some time, the decline in Hatchimals has been expected. The brand is in its fourth year, and while sales of the lower-priced Colleggtibles line have held up well, sales of the higher-priced large eggs have declined.

In addition, in Q1 this year we reduced our shipments of PAW Patrol to carefully manage the upcoming cutover of our TV seasons. This will normalize in Q2 and the balance of the year, as we deliver product aligned with the new season 6 content. Ben will go into this in more detail in a minute.

These four factors more than offset the strong performance of How to Train Your Dragon, Monster Jam, and the relaunch of Bakugan, all of which were successfully introduced in Q1.

Geographically, gross product sales in North America declined 23.4 percent. In Europe and the rest of the world, gross product sales declined 3.2 percent and 6.3 percent, respectively. International gross product sales represented 41 percent of total gross product sales in the first quarter, up from 36 percent last year, reflecting the decline in North America. However, we still expect to make meaningful progress on our goal of increasing international penetration to over 40 percent of total gross product sales on an annual basis.

Sales allowances as a percentage of gross product sales were 12.6 percent for the quarter compared to 11.2 percent last year. The increase was primarily as a result of the timing of our promotional spending in relation to our three major product launches.

As a reminder, sales allowances are typically between 10 percent and 12 percent of annual gross product sales and can 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 3 percent.

Increased television distribution income related to the delivery of Abby Hatcher, PAW Patrol, Bakugan, and season 2 of Rusty Rivets was offset by declines in merchandise royalty income from products marketed by third parties using our own intellectual property. The decline in these merchandise royalties related mainly to Hatchimals. App revenue from Toca Boca and Sago Mini continues to grow.

Gross profit for the quarter was 108 million, representing 45.1 percent of revenue compared to 149 million, or 52.1 percent last year. The decline in gross profit was largely volume driven. Several factors contributed to the decline in gross margin, including higher amortization of production costs for entertainment properties, higher sales allowances, higher freight costs relating to the timing of finished goods shipments from Asia, and an unfavourable shift in product mix.

Regarding the amortization of production cost for entertainment properties, in Q1 we delivered the final episodes of Super Dino, a boy's action TV show. Our accounting policy currently requires us to fully amortize the cost of each episode as we deliver it to a broadcaster. In the case of Super Dino, we did not have global distribution deal in place as we typically do for our other TV shows, and the effect of this was dilutive to gross margin for both Q4 2018 and for Q1. We have now fully amortized Super Dino.

Let me also spend a moment on product mix. As we have said before, products based on our own IP can carry higher gross profit margins than other products. The mix of lower Hatchimals and PAW Patrol shipments accounted for some of the reduction in gross margin in Q1. Keep in mind, however, that licensed products require less marketing, as the IP owner typically invests significantly in marketing the franchise, and as a result of this offset, the effect of owned IP and licensed product is relatively neutral at the adjusted EBITDA level. This was the case this quarter, as we saw a decline in marketing costs.

SG&A expenses decreased by 8.2 million, or 6.1 percent compared to last year. This decline reflects the 15.2 million bad debt expense arising from the TRU bankruptcy recognized in Q1 2018 and approximately 500,000 less in restructuring costs, offset by $2.3 million higher share-based compensation costs.

Excluding these items, SG&A increased 5.2 million, representing 51.1 percent of revenue compared to 40.9 percent last year and reflecting the deleveraging I discussed earlier. The increase was driven mostly by higher distribution and administrative costs, partially offset by lower marketing costs.

Selling expenses increased slightly in the quarter as the mix of licensed owned products, including Monster Jam and How to Train Your Dragon, drove higher royalties. Variable selling expenses are expected to be slightly higher in 2019 compared to 2018, for this reason.

Part of the increase in SG&A results from investments we have made in our distribution infrastructure to position us for future growth. Distribution expenses were 5.4 million higher than last year, and represented 7.1 percent of revenue compared to 4 percent. This resulted from additional costs associated with the start-up of our new East Coast US DC, our new DC in Hungary servicing Eastern Europe, and our new DC in Russia, all of which will facilitate growth and improve customer service levels when volumes ramp up.

In addition, the volume decline in Q1 highlighted the fixed storage costs associated with some of our third-party warehouses, especially in the US. As volumes increase through 2019, we should start to see operating leverage.

These increased distribution costs were partially offset by lower marketing expenses. Marketing expenses were $3.7 million lower than last year, primarily due to the timing of Easter and lower relative spend on products we launched, which were also supported by the marketing efforts of third-party IP owners.

Administrative expenses decreased $10.8 million this quarter compared to the prior year. Excluding the items I referred to earlier, admin costs increased by 2.6 million as a result of higher people and other administrative costs, primarily relating to GUND, which was acquired in Q2 2018, and our entry into Russia, both of which will drive benefits later in 2019 and beyond.

Again, it is important to remember that we lose operating leverage in the admin cost area when we see revenues decline during low-volume quarters.

Please also keep in mind, on January 1, 2019, we implemented a new accounting standard, IFRS 16. The impact on our balance sheet was the creation of a corresponding asset and liability of approximately 83 million initially, which was $81 million at the end of the quarter. This change has increased EBITDA and adjusted EBITDA, but does not materially affect net earnings.

Adjusted net income for the quarter decreased by $34 million, due to the lower gross profit and higher SG&A, partially offset by lower taxes. Adjusted EBITDA for the quarter was $7 million compared to $43 million last year, as a result of lower gross profit and higher SG&A. Our adjusted EBITDA margin was 2.9 percent of revenue.

2018 adjusted EBITDA was not restated for IFRS 16. The impact of IFRS 16 for Q1 2018 would have been an increase of approximately $2.4 million.

Total net working capital as a percentage of revenue at the end of Q1 increased to 10.2 percent from 6.1 percent. This was primarily due to a decrease in compensation-related accruals. Our core working capital comprising trade receivables, trade payables, and inventory remained flat at 12 percent of revenue.

At the end of Q1 2019, we saw a year-over-year decline of one day in inventory on hand.

Overall, our cash conversion cycle decreased by 4 days to 49 days.

Free cash flow was negative $40 million compared to negative 28 million last year. The change in free cash flow is due to higher cash flow used in operating activates, partially offset by lower cash used in investing activities.

Our balance sheet remains very strong, and we ended Q1 with $140 million in cash and no debt.

To conclude, our outlook for the full year 2019 remains unchanged from our view in March. We remain committed to our long-term financial framework, which targets organic gross product sales growth of mid- to high-single digits.

As a reminder, in 2019 on a full year comparative basis we expect our organic gross product sales growth to be low-single digits over 2018. From a seasonality perspective, we continue to expect the first half of 2019 to represent approximately 30 to 33 percent of full year gross product sales compared to over 34 percent in 2018. Second half gross product sales seasonality from a quarterly perspective will be similar to prior years.

Please note that GUND was acquired in Q2 2018. From Q2 onwards we will no longer break out GUND gross product sales separately, and will continue to report GUND as part of our Activities, Games & Puzzles and Plush business segments.

We continue to expect our adjusted EBTDA margin in 2019 to be in line with the margin we achieved in 2018. That applies if we include IFRS 16, or exclude IFRS 16 in both years.

We remain extremely focused on cost management and productivity initiatives. For the full year, we continue to expect appreciation and amortization, interest expense, our tax rate, and CapEx to be consistent with prior guidance.

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. Our global team remains relentlessly focused on the successful execution of our growth strategy.

We are very confident in the underlying strength of our business, which has positioned us to achieve long-term success. As we exited 2018, our focus was on diligently managing distribution channels and inventory levels to minimize year-end inventories overage in order to enter 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, shipments in, POS, and ending inventory. Our team has done an excellent job this quarter in ensuring we are well positioned to successfully execute for the remainder of 2019, and work diligently not to over-ship based on market conditions.

I want to spend some time going through this, as well as our POS results for Hatchimals and PAW Patrol, as it is important for you to clearly understand what is happening with these brands.

As we have discussed, the decline in Hatchimals shipments was anticipated. We are carefully managing the brand, even as we introduce new items in the line later this year. We believe that the magic of this play 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.

Regarding PAW Patrol, our shipments were managed down in the quarter by design. We are looking to optimize the sales opportunity for Q2 and beyond by carefully managing retail inventory as we transition to the new Mighty Pups theme in Q2. Despite flat global PAW Patrol POS in the first quarter, excluding TRU, PAW inventory was down 12 percent. Following Easter, our POS, excluding TRU, was up 2 percent and inventory was down 26 percent.

We wanted to ensure that retailers are clean of last season's inventory so the channel will be ready to receive the new Mighty Pups line, which we believe is one of our strongest ever. There is significant value in having one theme on shelves at a time: better promotional opportunity, better merchandising, and a better shopping experience for the consumer. We remain very confident in PAW Patrol's prospect for the year and beyond based on upcoming content, new themes, and innovative products.

For Spin Master as a whole, we are happy with our overall POS performance. In Q1, excluding the impact of TRU, we saw 6 percent growth globally and 4 percent growth in the US and ended up the quarter with optimal level of good-quality inventory at retail.

From an industry perspective, the performance of the US toy industry continued to be negatively impacted by the absence of Toys "R" Us in Q1 '19. According to industry data, the US market was down approximately 15 percent overall in Q1.

I wanted to share with you some additional key POS data to help with our Q1 results and to clear perspectives. Global Spin Master POS related to TRU in Q1 2018 was approximately $38 million, representing 15 percent of our total Q1 2018 POS. Excluding Hatchimals and TRU, our Q1 POS was up 25 percent globally and up 22 percent in the US, despite the 15 percent US toy industry decline.

Following Easter, we continued to see an acceleration in POS, with our POS growing 30 percent compared to the prior year. This is a clear indication of the strength and health of our brands. If we include TRU and exclude Hatchimals, our global POS was up 5 percent and US POS was down 4 percent.

Following Easter, we have again seen an acceleration. Amongst others, Kinetic Sand, Cool Makers, and Monster Jam have all had very strong POS results continuing to their positive momentum.

We're also seeing positive signs internationally. In many key markets, including Germany, France, UK, Australia, and Mexico, our POS is outpacing the industry and the competition.

To ensure sustained growth and to create value, it is also essential we remain vigilant and focused on improving operating leverage and gaining efficiencies in all areas of our business. In the fourth quarter 2018, we discussed steps we took to consolidate our GUND, Cardinal, and LA-based Game units into a new office called Spin Master East, which is based in Long Island City in New York.

Just after the end of this quarter, we announced the closure of the Virginia Beach office of Swimways. We intend to consolidate it into the Spin Master East, which will now be the home of three key global business units. Each global business unit will run independently, but in addition to significant costs savings, we believe that there will be important product development and marketing synergies by having the business operate in the same location.

For example, having the plush and outdoor brand teams co-located facilitates our strategy to develop more products for the baby category. Both GUND and Swimways already have products in this category through Baby GUND and the infant Spring Float line.

As we continue to expand globally, we are also seeing more of our products being shipped domestically than we have historically. We continue to see the need for distribution centres to be closer to our customers. As a result, this quarter we made further investment to establish new distribution centres in the East Coast of the US, Hungary, and Russia. As we mentioned on our fourth quarter call, we are investing in refining our supply chain efficiency to accommodate speed of delivery to consumer, as well as mobile commerce.

I would now like to briefly review our four 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. Our internal and external R&D network and the internal 36-month brand innovation pipeline process facilitates the identification of market opportunities that we capitalize on through product development or acquisitions. We continue to view this process as an integral part to our sustainable growth and profitability. Our current 36-month pipeline is strong for 2020 and much beyond.

The Activities, Games & Puzzles and Plush segment continues to be a strong platform for growth. Through acquisition and innovative partnerships, we are now the second-largest games company in the US. We are very happy with the performance of our Kinetic Sand brand, which is in its sixth year and continues to grow globally this year following our decision to launch an opening price point item at $2.99 in an innovative container that doubles as a mold, driving strong growth and momentum in the Kinetic brand. We are excited about the upcoming launch of the innovative Cool Maker Go Glam Nail Painter (sic) [Stamper], which is generating a lot of excitement everywhere.

It's now just over a year since our acquisition of GUND closed on April 2, 2018. This acquisition has provided us with a meaningful platform to innovate and grow in the plush area, one of the largest categories in the toy industry. GUND has iconic status and a loyal brand following and is in a strong position to drive growth.

As with Cardinal and Swimways, we see an opportunity to use our global sales and distribution infrastructure to scale the GUND business globally. We also plan to capitalize on strong licensing opportunities with key partners such as Sesame Street, Pusheen, and recently announced Hilda, the award-winning animation series airing on Netflix.

We now have access to a well-established specialty retailer network that we plan on selectively leveraging for Spin Master brands. In addition, GUND will also be supporting the high end line of the Fuzzlies from Abby Hatcher to be launched in 2020.

After the quarter, we signed a key licensing agreement in the US and Canada with London-based board game company, Big Potato Games. This will allow us to market a range of games, including more than 15 of Big Potato's existing titles in North America, as well as new games we're jointly developing. We're already seeing strong listing for these titles in the US.

We have some great innovation for 2019 in the Remote Control and Interactive Character segment. The integration of Hatchimals technology into How to Train Your Dragon with the Hatching Toothless Dragon, as well as Awesome Blossom, are generating much excitement.

In Hatchimals, we are continuing to innovate and stretch the brand. 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 doll housed in an egg and is selling better than projection. We will be launching Colleggtibles season 6, Secret Surprise, and Hatchy Wall (phon) in the fall. We have more innovation for 2020 and beyond.

Also, we will be launching the most amazing, lovable elephant, Juno, as well as our flying pet Owleez in fall. 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.

In the Boys Action and High-Tech Construction segment, we saw success in the initial shipment of our three major boy action launches: How to Train Your Dragon, Monster Jam, and Bakugan. We expect these properties to drive growth in this segment in '19 and beyond.

The innovative product line for Monster Jam hit shelves on January 1st, and it has shown some very strong results. Kids love the attention to detail that we've brought to these trucks. This is a global, 10-year deal we sell the (phon) Monster Jam franchise and is a new entry into the wheels category, giving Spin Master a great opportunity for diversification and future growth.

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 hard at work developing the line for 2020, and initial customer reaction has been very positive.

In the Pre-School and Girls segment, the product line for '19 is one of the strongest we have created, with fresh themes and innovative products. In PAW Patrol for the fall, we are launching the totally redesigned Lookout Tower and the Mighty Jet Command Centre. In addition, we are launching new PAW Patrol Power transforming vehicles and a new diecast line. Q1 saw growth in Twisty Petz, which continues to also do very well globally.

The Outdoor segment POS was down over 25 percent in this quarter relative to 2018 due to weather-related issues. However, we expect to make up most of this shortfall in the next four months as the season warms up and people open up their pools.

In addition to our five business segments, Toca Boca and Sago Mini continues to grow steadily. 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 brands with consumers.

Toca Boca is continuing to perform well as the number one paid mobile digital kid brand. We are seeing strong growth in engagement in both Toca Boca and Sago Mini subscription and paid app businesses.

Our second growth strategy is to grow our international sales, and we have made great progress. We opened our Russian office and began direct selling activities in Greece, Austria, Switzerland, and the Balkans in Q1. These businesses are still in their start-up phases. We are on track to deliver our plan based on future listings, and look forward to them ramping up for the balance of 2019.

Our third growth strategy is aimed at developing evergreen global entertainment properties. Ronnen gave you a detailed overview of our current slate of properties earlier, as well as the new content we will be delivering in 2019 and beyond.

The new season of PAW Patrol Mighty Pups is a great example of the fusion of storytelling and toy design. We are introducing new themes each season that are timed to the delivery of our fall product line. This ensures that during our largest selling quarter the new products on retailer shelves and the new episodes on air are closely linked.

The way we think about entertainment and physical toy as converging content is a strategy we feel will continue to be successful for our entertainment property launches, including Abby Hatcher, Bakugan, and new shows that we’ll be launching in 2020 and beyond.

Our final growth strategy is focused on driving growth through strategic acquisition. And we have a great track record. Our global scale, strong balance sheet, and financial flexibility positions us to capitalize on opportunities with the right strategic fit. We have a healthy pipeline of acquisition opportunities. However, we will only acquire assets that fit our financial and long-term strategy.

To conclude, we are confident in our 2019 line and our long-term growth strategy. We have built strong and focused platforms and are incredibly proud of the effort and results that our employees have delivered.

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

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, press *, then 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.

Sabahat Khan — RBC Capital Markets

Thanks, and good morning. You provided a little bit of colour on your outlook. Can you maybe give us some details on, I guess, your confidence on reiterating 2019 guidance? Maybe what are some of the positives that you're seeing out there? And what are some potential risks? Like is there still a chance that maybe some of the Toys "R" Us volume this year by the end of the year doesn't get picked up? Maybe just an overview on what you're seeing year to date in terms of the outlook.

Ben Gadbois

Yeah. Sabahat, good morning. So, Mark, if you want I'll take the first and—

Mark Segal

Yeah—

Ben Gadbois

—then I'll pass it to you. But I think there's a couple key points in terms of our confidence for the rest of the year. And a lot of it is really understanding our POS and how our order pattern with retailers are actually shaping up. And I just want to give everyone a few pieces of data and just go back to what we said and then add to it.

In Q1, the industry in the US was down 15 percent and TRU was 15 percent of our POS in '19. And as you know, Toys "R" Us did not sell any product pretty much in the end of Q2 last year. So for the back half of the year, there is no TRU. And it's going to be an industry that will be pretty much will have cleaned itself up after the full year cycle of the Toys "R" Us bankruptcy.

But what is really creating a lot of confidence for us is really overall the strength of our portfolio is our POS in Q1 without TRU and Hatchimals, which Hatchimals, as you know had a—we'll talk about that in a minute—was up 25 percent. And that really demonstrates the strength of our portfolio. And if you move from Q1 and you just look at the month of April, our POS was up 47 percent globally versus last year and 58 percent in the USA if you exclude TRU and GUND, which we should not take credit for GUND, given last year we did not have it till April.

So the performance from a POS standpoint is very strong, and the feedback from our retailers is that they're telling us that our performance at the store level is very solid where they're very happy with our POS and they're also telling us that we are outpacing the industry overall and pretty much all of our key competitors. They're also, furthermore, very positive about our fall offering. And we're getting really extremely broad support across all of our brands and portfolio.

And as you know, market share is really based on POS versus shipment in. So for us, even when we look at our performance of POS in Q1, even though the shipment did not reflect it for the reasons that Mark, Ronnen, and I discussed, we also had some pretty strong POS.

And one of the things that is important also to understand is that we manage the business with extreme discipline where we look at—for every period, we look at the beginning inventory at retail, we look at what the POS is, what the shipments are, and then what the ending inventory position is. And we will continue to manage the business with a lot of discipline, and obviously in the first quarter that discipline reflected some of the market condition.

Ben Gadbois

Okay. Yeah. Thanks, Ben. Sabahat, just to add to what Ben said, I just want to take this opportunity to talk about our seasonality and just to remind everybody about how our seasonality operates, both from a sales perspective and an EBITDA perspective.

As you know, most of our seasonality is second-half weighted typically around 70 percent. Q1 2018 was a very high quarter in terms of our typical sales profile. It was around 17 percent of our sales in ‘18, and it’s usually around 12 or 13 percent. So there was a little bit of a seasonal shift. But again, from an EBITDA profile, we typically make most of our money in the second half of the year, and mostly actually in Q3 where we ship in a lot of our goods, but then in Q4 we actually spend most of our dollars on marketing when people are in the stores.

So that’s the typical profile. When you think about what happened in Q1, there were some timing issues that affected us, and it really had an impact on gross margin. If you think about the fact that we wrote Super Dino fully off, we actually delivered PAW Patrol, we delivered Bakugan, but we have not yet had the benefit of the sales actually kicking in yet. So for example, when we go out and sell Super Dino for the balance of the year, we're doing it against a property that we've already fully amortized. And the same applies to some of the other properties that I mentioned.

So that give us, overall, the confidence that our guidance is solid for 2019.

Sabahat Khan

All right. Thanks. And then, I guess, as we think about beyond this year going to 2020 and beyond, I guess in the absence of Toys "R" Us, do you feel the industry, or maybe your sales and EBITDA could be a bit more H2 weighted versus historical levels, given that TRU was a year-round buyer versus some of the other retailers?

Ben Gadbois

Yeah. I think directionally that may be accurate. It's a little bit too early to be very definitive on that. But obviously, Toys "R" Us as a year-round retailer did buy more in Q1 than other retailers did. And we actually saw some of that effect in this Q1 this year. And so I think directionally that's accurate, but I think time will tell as we see the other retailers starting to develop their toy offerings and potentially do so on an around-the-year basis.

Sabahat Khan

Okay. Thanks. And then just on Bakugan, you provided some data points that you're seeing early on. I guess as we look to the rest of the year, should we assume that by the time you get to Q3, you will have introduced the property into pretty much all the markets? Or is that going to be more into kind of late this year, early next year? I'm just trying to figure out when … I guess when we can see the first full quarter sort of ramp up across all the global markets that you're looking to target.

Ben Gadbois

Yeah. So Bakugan has been launched in North America and Australia, and it's doing well. And then what we're actually doing now is, we're in the process of launching toward—I mean launching most of Europe and the other regions in the world. So by the end of Q3, it will pretty much have been launched in the majority of our markets.

Sabahat Khan

Okay. And then just last one for me. You made a comment on the DC product being introduced to some of the retailers. I guess, is there anything you can share on which platforms within DC we might see in the first year or so? Or is that something that maybe Warner Bros. is going to release in terms of the titles to expect in the next 12 to 24 months?

Ronnen Harary

Yeah. I think that you'll see more of that when you come to the showroom in the fall. And that will give you a good representation of what lineup in terms of our products matching to their entertainment properties.

Sabahat Khan

All right. Great. Thank you.

Operator

Your next question comes from the line of Kenric Tyghe with Raymond James. Your line is open.

Kenric Tyghe — Raymond James

Thank you, and good morning. A two-part question on PAW Patrol. First off, is the extent to which you managed down in this quarter reflective of your not being able to perhaps have as clean a start as you had hoped exiting the fourth quarter of 2018?

And then the second part, probably more for Ronnen, is it sort of struck me over the last couple of seasons that you were layering in Mission Paw and Ultimate Rescue and sort of almost testing out the market as to where you thought you would either have the best traction or the longest runway. Could you sort of speak to what got you over the hump on Mission Paw and the cutover on Mission Paw, which seems to have come, perhaps, a little quicker than we might have expected?

Ben Gadbois

Okay. So, Kenric, good morning. I'll take the first part of the question. So as far as the cutoff of the season at the shelf, it's we're actually doing something different this year. So as you know, we've had tremendous success with PAW Patrol over the last few years, and every time we change a season, what we've noticed actually happens is the old season and the new season tend to coexist on the shelf at the same time, which limits in some cases our ability to do some—get a fully—it delays either how we can do a themed merchandise program. It actually also sometimes creates markdowns in order for us to clear the shelf. So it does not have to do with more inventory left over in 2018. It's actually a new methodology that we're actually employing.

And just as a result, I'll give you a couple different data points is that even if our POS is higher single-digit, our inventory at retail is down 26 percent. And in the past, we might have shipped some of that, and now we're saying, no, we're not going to do that. We really want a cleaner shelf. And then when you look at even some of the basic vehicles, which is one of the—we're doing a clean swap on those from the old to the new, our inventory in these two segments is down 50 percent and our POS is up low single-digits.

So it truly is—what's actually happening in Q1 is truly by design. And we expect that the franchise will be rewarded for it. I think it creates better shopping experience for the consumers, and we think, again, from overall from a franchise management, it's better to do it this way going forward.

Ronnen Harary

Yeah. And, Kenric, can you just repeat your question, please, so I fully understand it?

Kenric Tyghe

Yeah. Sorry, Ronnen. So it looks as if you've increased the focus on or really narrowly focused on Mission Paw as the next piece of the puzzle here, or the next leg. Whereas over the course of the last year or so, it looked like you were sort of testing out Mission Paw versus Ultimate Rescue as being the next wave to ride. And I'm just sort of trying to understand your conviction level or what got you there on Mission Paw. I mean, I've seen a lot of the episodes, I think I understand why, but I'd just like to hear it from your perspective on the Mission Paw switch in focus.

Ronnen Harary

Sure. When you say—are you saying Mission Paw? Or are you saying Mighty Pups. I'm trying to—

Mark Segal

It should be Mighty Pups.

Kenric Tyghe

Sorry, Mighty Pups. My apologies.

Ronnen Harary

Okay. Yeah. So I just wanted to—you were bringing me back in time there with Mission Paw.

Kenric Tyghe

Yeah. Sorry.

Ronnen Harary

I think, first of all, what we're doing in the preschool category is quite historic and very differentiated from anything that's come in the past. And with Mighty Pups, our strategy was to put out a 44-minute movie. And it wasn't actually to test the water, it was actually to get more eyeballs on the franchise with full-length movies. It just happened to be so strong that people like Walmart went in and they wanted to actually get exclusive around it. And what we're finding is that the cadence of actually putting out a themed movie and then following it up by 13 or 20 actual episodes the following year and blowing out the theme is a good model for us to employ.

So you'll see the same thing happening this fall, where we have PAW Patrol the Race to the Rescue, which is going to be a 44-minute movie, and then followed up by specific retail exclusives.

So I think the Mighty Pups confirmed our strategy, and the theme was so strong that it really gave us the opportunity to do what Ben described to you before in terms of making sure that it has a very clear presence at retail.

And then the last thing was just with Ultimate Rescue, that one actually also over-indexed for us. And Ultimate Rescue is actually going to become part of the core line because the kids love these Ultimate big rigs and they loved all five pups dressing up in the same theme and going on the missions together. And so you'll see that being actually integrated into the long-term core line of the franchise.

Kenric Tyghe

That's great. Thanks, Ronnen.

Ronnen Harary

Yeah.

Kenric Tyghe

And just a quick second question. On Bakugan, could you give us a better indication as to how much of the growth in the category in the quarter was Bakugan-driven? Or whether there would have been growth in the category absent or ex-Bakugan in terms of dollars, percentages, however you're willing to directionally indicate?

Mark Segal

Yeah. So, Kenric, we're not going to break out Bakugan. I think all of those three franchises that were in the Boys Action category were successfully introduced in Q1 and they all drove growth, but we're not going to break it out.

Kenric Tyghe

Fair enough. Worth a try. Thank you. I'll get back in the queue.

Operator

Your next question comes from the line of James Allison with Barclays. Your line is open.

James Allison — Barclays

Good morning. So you've emphasized that the first half of 2019 will be soft, and that's easily understandable for Q1, given the Easter shift and the lack of TRU shipments. However, I was hoping to get a better understanding around your thoughts here on Q2. You've indicated that you had very little TRU shipments in Q2 last year, so presumably that headwind goes away. And then secondly, previously you've mentioned you saw less activity from other retailers in Q2 given—Q2 last year, given that the TRU liquidation captured above-average POS sales in the quarter. So I would assume you should see more orders from other retailers, like Target and Walmart, in Q2 this year. This puts Easter—the Easter shift should imply a strong rebound for Q2. So is there anything I'm missing here? Or how would you frame it?

Mark Segal

No. I think you actually got a fair chunk of it there, James. I would say to you that Q2 last year was a very messy quarter because of the TRU liquidation, which affected the purchasing patterns of our other customers in that quarter as well.

This quarter obviously will have the pickup of Easter, which will come into Q2 this year, and we'll see the purchasing patterns of our customers really go back to normal purchasing patterns for a typical Q2.

Ben, is there anything you want to add on that?

Ben Gadbois

No. I agree with that. And I think the—without getting into too much detail, I think what's important for us is and the best indication is always how the consumers vote, and the consumers right now are voting strongly from a POS standpoint. And it's not just only in North America, but our POS is equally significantly right now above-market in France, in the UK, in Germany, in Central and Eastern Europe. Benelux is doing great. Mexico is doing great. Australia is doing great. So from a POS standpoint, for us that's the most—the best indicator from what's right in front of us.

And for the back half of the year, it's just the commitment that we have from the retailers. We think we're going to have some great marketing programs as well to match these great products.

James Allison

Great. Thanks. And I guess just switching gears so, Ronnen, a question on PAW Patrol and Abby Hatcher. I'm just thinking about the target market for each of these shows. Do you have any research that's measured the viewership overlap between the two programs? And do you suspect there could be material cannibalization on the corresponding toy lines as Abby Hatcher hit the shelves in late 2019 and into 2020? Or how do you see those properties balancing out?

Ronnen Harary

I don't see any cannibalization, and that's mainly due—first of all, I'll say that they're both very similar in terms of demographics. They're really 50/50 to all genders. And the key thing to understand is that the play pattern within the properties are very, very different. And that's where we don't see any cannibalization.

PAW Patrol is very much based in the five pups and it's very much a vehicle property. And then with Abby Hatcher, it's very much about one single character, which is Abby, and then all her Fuzzlies, and it's about that one aspirational girl and then her Fuzzlies, which are more quirky in nature, and it's the relationship between Abby and the Fuzzlies and how those play out together. Now there is awesome things like the Abby Hatcher Hotel and the way they live and how they live, and stuff like that. So it's a very different type of storytelling.

And I think that the third thing is the universe of kid's preschool shows is quite large. There is a lot of competitors in this space. So when we produce our shows, we are trying to be—we're trying to stand out amongst our own portfolio of shows and also the portfolio of the larger universe of content that's out there.

James Allison

Okay. Great. Thanks so much.

Ronnen Harary

Yeah.

Operator

Your next question comes from the line of Gerrick Johnson with BMO Capital Markets. Your line is open.

Gerrick Johnson — BMO Capital Markets

Good morning. Thank you. Hey, Ben, there were a lot of POS numbers flying around, and I just want to be clear. Can you tell us what US and global, so two numbers, US and global POS was year to date, excluding Toys "R" Us, but including Hatchimals? Thank you.

Ben Gadbois

Okay. Gerrick, so you want including Toys "R" Us?

Mark Segal

Excluding Toys "R" Us.

Ben Gadbois

Excluding, yeah, excluding Toys "R" Us are … in Q1 are we were at 6 percent, plus 6 percent, and then 4 percent. Four percent US, six percent global.

Gerrick Johnson

And then do you have a year-to-date number that would include the Easter comparison?

Ben Gadbois

I can give you—let me see what we have here. No, actually, I don't, Gerrick. I'm sorry. But I will tell you that it's approximately up to 10 percent.

Gerrick Johnson

Okay. Okay.

Ben Gadbois

Because we—yeah, the POS in April was very, very solid.

Gerrick Johnson

Okay. Thank you. Gross margin was down 700 basis points. Can you go through each of the components and how they impacted, and in particular, how much did the amortization of Super Dino affect gross margins? So maybe go through each amortization, mix, freight all that, and their basis point impact? Thanks.

Mark Segal

Yes. So, Gerrick, we haven't actually broken it down publicly by individual item, but obviously, amortization—if you look at the gross margin 7 percent relative to the prior year, the amortization was the biggest component of that. It was around half of that. And that related to Super Dino; it related to Bakugan; it related to PAW Patrol; it related to Rusty Rivets; it related to a whole bunch of properties.

The reason I'm calling Super Dino out in particular was simply because in that particular case, we only delivered the show to one very small customer with almost no revenue, and so it had a highly dilutive effect, which will not be felt going forward. In fact, we've just actually sold the show in Q2 to a customer in China, so you'll get a pickup there. And that will happen going forward for the balance of the year as we sell the show.

Then we saw a shift in product mix. We had a freight impact that related to the timing of deliveries between Q4 and Q1. There was a little bit of noise there. We also had slightly higher sales allowances due to higher co-op advertising in the quarter. And so all of those were roughly the same impact.

There was also a—

Gerrick Johnson

Okay.

Mark Segal

—slightly negative impact from foreign exchange, but not material.

Gerrick Johnson

Okay. My last question. You said you're happy with the initial launch of Bakugan, but how has it performed relative to your expectations?

Ben Gadbois

Yeah. I can start and you can jump in.

Ronnen Harary

Go ahead.

Ben Gadbois

So I think we're … I think compared relative to our expectation, we are pretty much exactly where we want to be. In Q1, as we launched, it was really … what we're really focused on right now is to build awareness. And that's being built, and we have all kinds of different metrics that we're obviously measuring.

From a marketing standpoint, I think the team is doing a wonderful job. We're focusing on, obviously, the TV shows. We have YouTubes. We have an app for Bakugan. We're working with influencers. We have samples programs. We're also doing tournaments. And the POS is coming in where we expect it to come in at this point, and we're really looking forward to launching the rest of the world.

So we're very committed to Bakugan, and I think the launch has been successful so far.

Ronnen Harary

Yeah. The only thing I would add to that is that one just needs to look at the broadcast platform per country. And one of the things that is going to kick in in July is the ability for Bakugan to go onto

YouTube and kids to be able to start watching the content there, and it's a nice complement to Cartoon Network and potentially some other SVOD platforms.

Ben Gadbois

But overall, Gerrick, it's too early right now. So it's still building and it's early days, but it's on track.

Gerrick Johnson

Thank you very much, guys.

Mark Segal

Thank you. Folks, we're going to end it at this point now. Unfortunately, we—I know there's some more questions on the line, which we'll deal with later today, if you don't mind. We have to—we have to end the call now so we can get over to our AGM in a few minutes.

Thank you very much, and we look forward to speaking to you again.

Operator

This concludes today's conference call.

Ben Gadbois

Thank you.

Operator

You may now disconnect.