

THE FUTURE OF FUN!

Spin Master Corp.
Annual Report
2015



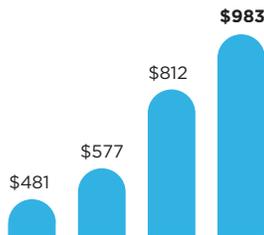


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Letter to Shareholders⁽¹⁾

In July 2015, Spin Master became a publicly traded company on the TSX, while generating record financial results including strong profitability and free cash flow

**WHEN WE COMBINE
OUR STRENGTHS
WITH THOSE OF
OUR PARTNERS –
INCLUDING
INVENTORS,
RETAILERS,
LICENSORS,
BROADCASTERS,
AND ANIMATION
STUDIOS –
WE CREATE
SIGNIFICANT VALUE**

Completion of our Initial Public Offering

2015 was a momentous year for Spin Master. Founded in 1994, Spin Master has grown from a start-up to become a global competitor in the children's entertainment industry. We completed an Initial Public Offering on the Toronto Stock Exchange on July 30, 2015, selling approximately 14.1 million Subordinate Voting Shares for total gross proceeds of approximately C\$253.1 million. The shares trade under the symbol TOY.

The decision to take Spin Master public followed a comprehensive review of the children's entertainment industry and our operations, financial strength and growth prospects. Through that process, we recognized that access to public capital markets would provide us with the opportunity to accelerate growth by leveraging, and further developing, the strong global platform that we have established.

Strong Financial Results

Our financial results for 2015, our first year as a public company, were very satisfying. We generated Gross Product Sales⁽¹⁾ totaling US\$983 million, an increase of 21.1% from US\$812 million in 2014. Over the past ten years, our Gross Product Sales⁽¹⁾ have increased at a 12.7% compound annual growth rate. For the twelve months ended December 31, 2015, revenue increased by 22.9% from US\$716 million for the same period in 2014 to US\$879 million in 2015. In constant currency terms,⁽¹⁾ revenue increased by 26.9% relative to 2014.

(1) Non-IFRS term. Non-IFRS measures do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and are therefore unlikely to be comparable to similar measures presented by other issuers. Please refer to the section entitled "Non-IFRS Financial Measures" in the Management Discussion and Analysis within this Annual Report for a discussion of the definition, components and uses of such non-IFRS measures, as well as a reconciliation of such non-IFRS measures to IFRS measures (where a comparable IFRS measure exists).

Letter to Shareholders (continued)

Gross profit in 2015 increased to US\$459 million, or 52.2% of revenue, compared with US\$358 million, or 50% of revenue in 2014. Net income for the year was US\$47.1 million, or US\$0.48 per share, a decrease of 24.3% from US\$62.2 million in 2014. Adjusted Net Income⁽¹⁾ was US\$98.6 million, or US\$1.04 per share, up 48.7% from US\$66.3 million in 2014. Adjusted EBITDA⁽¹⁾ for the year increased to US\$160 million, up 43.5% from US\$112 million in 2014. Adjusted EBITDA⁽¹⁾ margins increased to 18.2% from 15.6% in 2014, reflecting higher gross profit, increased licensing and merchandizing revenue, and operating leverage.

Growing our Business

Spin Master has four major growth strategies, which are expected to drive mid to high single-digit organic gross product sales growth over the medium to long-term. First, we will continue to innovate across our portfolio of brands. Our competitive strength lies in our ability to constantly create meaningful innovation for our consumers. Second, we will develop evergreen global entertainment properties. We plan to leverage our current properties and develop 1–2 new properties per year. This will allow us to expand product margins and grow auxiliary revenue streams. Third, we plan to increase sales in international markets. At the end of 2015, our sales outside of North America were only 30% of our total compared with approximately 72% for the industry, underlining the significant opportunity we are seeking to exploit. Fourth, we will leverage our global platform through strategic acquisitions. We are focused on acquiring kid-focused intellectual property and brands, infusing them with our innovation expertise and growing them globally. The acquisitions of Cardinal Industries Inc. in 2015 and Editrice Giocchi SRL and the *Etch A Sketch* and *Doodle Sketch* brands in early 2016 highlight our ongoing strategic acquisition strategy.

Partnerships

Spin Master has been built on the success of our strategic partnerships. When we combine our strengths with those of our partners - including inventors, retailers, licensors, broadcasters, writers, directors and animation studios - we create significant value. We welcome you as our new partners and look forward to continued success.



Anton Rabie
Chair & Co-CEO




Ronnen Harary
Director and Co-CEO

John Cassaday
Lead Director

985

Number of Employees

US\$ 983 million

Gross Product Sales

US\$ 879 million

Revenue

US\$ 160 million

Adjusted EBITDA

21.1%

Gross Product Sales Growth
2015 vs. 2014

43.5%

Adjusted EBITDA Growth
2015 vs. 2014

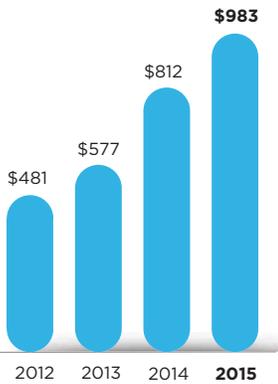


Financial Information⁽¹⁾ (US\$ millions)

Spin Master continues to grow at a faster rate than the children's entertainment industry as a whole, while generating strong profitability and significant free cash flow. Spin Master maintains a conservative capital structure that will support continued growth.

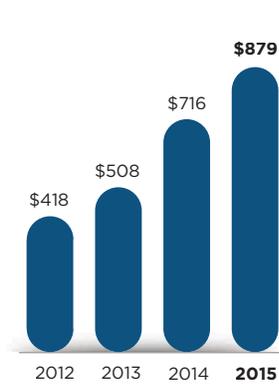
+26.9%

Gross Product Sales⁽¹⁾
CAGR 2012-2015



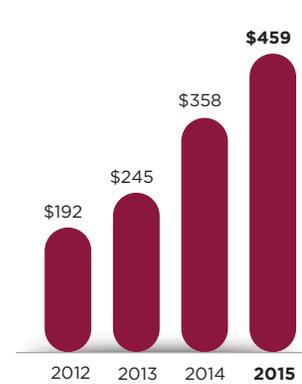
+28.1%

Revenue
CAGR 2012-2015



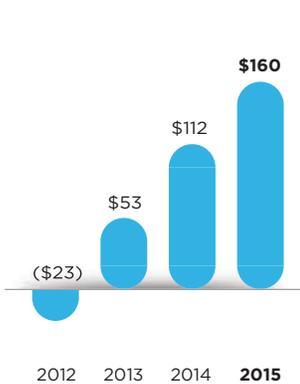
+33.7%

Gross Profit
CAGR 2012-2015



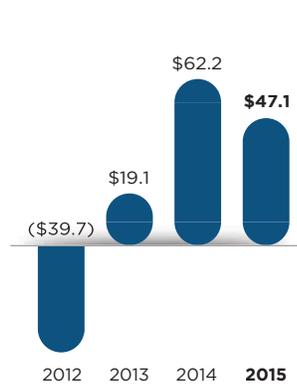
+73.7%

Adjusted EBITDA⁽¹⁾
CAGR 2013-2015



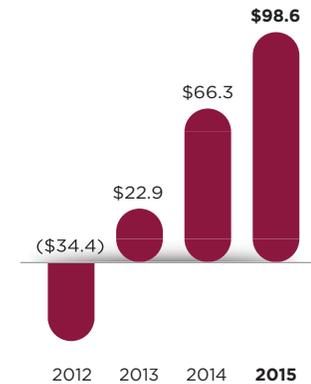
+57.0%

Net Income
CAGR 2013-2015



+107.5%

Adjusted Net Income⁽¹⁾
CAGR 2013-2015



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Growth Strategies



Innovate across the portfolio

- Leverage our internal and external global R&D capabilities to build a deep product pipeline
- Continue to invest in advanced technologies
- Strategically acquire entertainment licenses to build product pipeline
- Drive cross-platform exploitation of toys and mobile gaming

Grow international sales

- Focus on deeper penetration and growth opportunities in developed and emerging markets
- Invest in optimizing our international affiliates and third-party distribution network
- Strategically tailor product offering to local markets



Develop evergreen global entertainment properties

- Capitalize on the success of our current entertainment properties to drive sales and auxiliary revenue streams
- Develop 1-2 new shows per year
- Strategically relaunch proven properties to realize the value of owned content



Leverage our global platform through strategic acquisitions

- Fragmented industry represents opportunities for consolidation
- Strong balance sheet and free cash flow generation provides financial flexibility
- Proven ability to successfully integrate acquisitions and enhance their value



Remote Control & Interactive Characters



Market Strategy

Our Remote Control business is targeted at boys aged 6-11 and emphasizes dynamic motion. *Air Hogs* is marketing driven, focused on product innovation, strategic product line development and strategic licensing. For 2016 we intend to introduce a new category of connected toys to keep *Air Hogs* as the category innovator while attracting older “gamer” consumers, and a preschool line of remote control toys.



The Interactive Characters business targets girls and boys aged 6-9 years. We will drive innovation through our leading-edge robotics expertise blending technology and compelling characters, bringing them to life for children. We will expand our offering to include lower retail price points.

New for 2016

In addition to an expanded *Star Wars* line, the *Air Hogs Batmobile* will launch in conjunction with the *Batman vs Superman* movie. Also, in conjunction with a new *Star Trek* movie, we'll be introducing the first-ever flying *Starship Enterprise*, as well as a *Thunderbirds* licensed product line. We are launching *Air Hogs Connect*, an exciting new 3D-augmented reality technology gaming



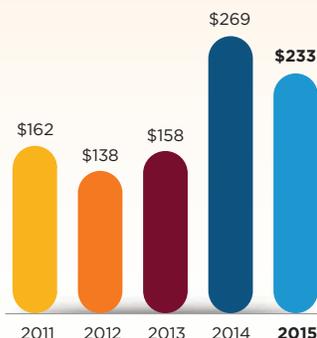


system, which brings the world of physical toys together with a digital game experience. We will continue to develop the *Air Hogs Connect* line with new technology and exciting licensed applications.

Interactive Characters will introduce new technology in our high-end *Zoomer* products, including “True Expression Technology”, and innovative animated face technology, launched on the *Zoomer Chimp*. Our exciting new *Hatchimals* product will be a big focus, launching with revolutionary, patented “auto-hatching” technology.

+9.5%⁽¹⁾

Gross Product Sales



(US\$ millions)

(1) Compound Annual Growth Rate 2011-2015.

PARTNERSHIP WITH INVENTORS

In the mid 1990s, model planes were only available from hobby stores and required glued assembly, gasoline, and adult supervision. In 1996, turned down by many other toy companies, two British inventors brought to Spin Master a prototype flying vehicle that was essentially a pop bottle with Styrofoam wings, powered by a miniature single-piston air-powered engine. Only Spin Master had the vision to see the mass market potential of the concept of a miniature air pressure motor. This led to the development of the *Sky Shark*, which became the genesis of the *Air Hogs* brand.



Boys Action & High-Tech Construction

MECCANO TECH
MAKER SYSTEM



Market Strategy

Boys Action focuses primarily on products for 4–8-year-olds, with a secondary market of older kids and collectors, who love the way our high-quality products bring top entertainment brands to life. We thrive on the cutting edge of what's new for boys, from entertainment franchises to innovative technology. We intend to grow the business through partnering with world-class licenses, investing in our own entertainment content, expanding our product offering and distribution in specialty and value channels and broadening our distribution and marketing in Europe, Latin America, and Asia.

High-Tech Construction delivers engineering and robotics play for boys 6 and older. *Meccano* provides the budding engineer a system to graduate to. Our objective is to excel in engineering toys, through the introduction of new technology and materials that enhance the building and educational experience. Our growth strategy is to be the first brand to establish a segment of toys centered on engineering and robotics, with new offerings across a wide variety of price points.

New for 2016

In 2016, our Boys Action business will be the master toy licensee for a number of major upcoming movie properties including launching toy lines for *Angry Birds*, based on the motion picture that's relaunching the hit app franchise, and *Secret Life of Pets*, an animated comedy from the makers of the record-



breaking *Despicable Me* franchise. We are continuing to develop *Star Wars* robotic items and have been working on a new original animated TV show.

In 2016, High-Tech Construction will continue to innovate across the *Meccano* brand with new materials, new build designs and new technologies, including the introduction of *Meccanoid 2.0* with natural language interaction. In addition, we will offer simplified programming to a broader audience with *Meccasaur T-Rex* as well as an entry price point robotic line of *Micronoids*.

+15.7%⁽¹⁾⁽²⁾

Gross Product Sales

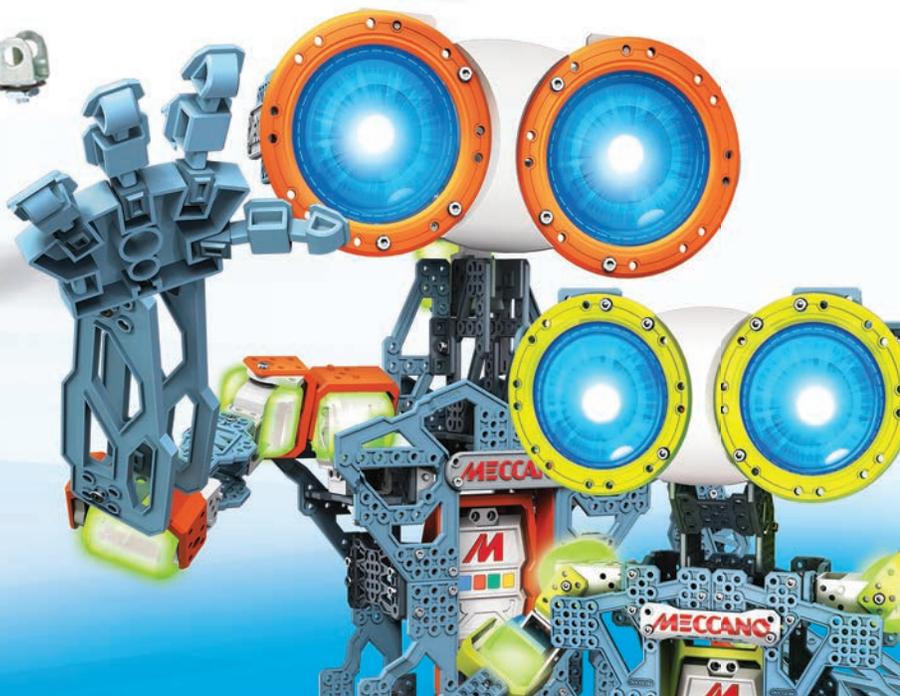


(US\$ millions)

(1) Compound Annual Growth Rate 2011-2015.
 (2) Excluding Bakugan of \$151 and \$38 respectively.

GROWING BY ACQUISITION

Meccano was a brand with over 100 years of history that needed product innovation and fresh marketing. We leveraged our core strength in innovation to acquire and infuse the brand with new life, evidenced by *Meccanoid* winning the prestigious “Last Gadget Standing” at 2015’s Consumer Electronics Show.



Activities, Games & Puzzles and Fun Furniture

Kinetic Sand



Bunchems!

Market Strategy

The Activities business is targeted at girls and boys aged 2-10. We offer a wide range of products that integrate fashion, food and popular culture into innovative products that have global appeal. Our products promote both gender specific and gender neutral play patterns designed to teach children new skills and provide multiple outlets for creative play and expression. We are growing the business through brand building, focusing on *Kinetic Sand*, *Bunchems*, the recently acquired *Etch-A-Sketch* brand, and the *Cool* line. We're targeting global and channel expansion to increase our footprint, and entering into "basic activities" through our Entertainment and Preschool & Girls products.

Games and Puzzles targets not just children, but also families and adult gamers. Games and puzzles are the perfect antidote to an increasingly technological world and provides an emotional connection between family and friends. We are growing by acquiring business and titles, investing in existing brands such as *Hedbanz*, reinventing existing titles such as *Beat the Parents*, growing our global footprint through new market and product launches and introducing new game experiences.

Fun Furniture features our *Marshmallow* line, aimed at boys and girls between 18 months and 4 years. Our objective is to provide kid-sized, comfortable furniture with the most popular children's entertainment characters. Our growth strategy includes expanding E-commerce and direct-to-consumer channel sales through product and licensing expansion, new formats and expanded price points.



New for 2016

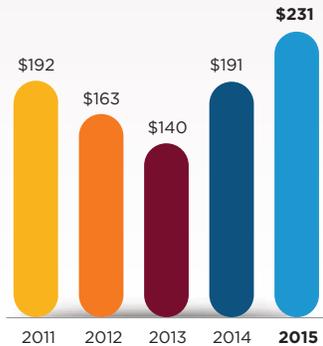
Activities is launching a product line with the *Build-A-Bear* license, for which we are the exclusive toy partner, in addition to *Pottery Cool*, a new patented way to create with clay. We're also planning a global expansion of *Bunchems*, the patented, soft, brightly colored plastic spheres that easily connect to make effortless, colourful creations; expansion of the *Kinetic Sand* line including *Kinetic Sand Disney* play sets, which allow indoor sandbox play, and the global launch of *Bendaroos*.

Games and Puzzles will focus on growing the Cardinal business in 2016, both domestically and internationally, using Spin Master's global distribution network. We will also leverage Cardinal's strengths in the value channel to grow our existing Games and Puzzle business. New *Hedbanz* games, including the deluxe electronic version and licensed versions of the game, will be launched.

Our *Marshmallow* line will feature new chairs and licenses. In addition to *Frozen*, *Paw Patrol* and *Mickey and Minnie*, we are introducing *Peppa Pig* and *Hello Kitty*.

+4.7%⁽¹⁾

Gross Product Sales



(US\$ millions)

(1) Compound Annual Growth Rate 2011-2015.

ENTERING NEW CATEGORIES



In 2010, we began the execution of a targeted entry into the games business, a segment with a strong and consistent revenue and cash flow profile. We made the platform acquisition of Imagination Games, and supplemented it with a number of new titles including *Quelf*, *Perplexus*, and *Hedbanz*. The 2015 acquisition of Cardinal Industries moved Spin Master into the #2 position in the North American games market, only five years after our initial entry. This position was supplemented in early 2016 by the acquisition of the Editrice Giochi games business in Italy, which includes such well known titles as *Risiko* and *Scarabeo*.



Pre-School and Girls



Market Strategy

The Pre-School business develops toys and children's entertainment for boys and girls aged 2-5, while the Girls business focuses on girls aged 3-8. The Pre-School business is driven by entertainment licensing - kids fall in love with aspirational characters. Our objectives are to drive innovation and exciting entertainment, keep the pipeline full with new product innovation and build global entertainment franchises, including developing *Paw Patrol* into an evergreen franchise.



Our strategy in both Pre-School and Girls is to maintain a consistent pipeline of entertainment properties, with a particular focus on those that cross geographic and cultural boundaries. *Paw Patrol* represents an excellent example of this strategy, and we continue to leverage its success with toys and licensing opportunities, driving licensing and merchandise revenue. We also see tremendous opportunities to enhance our product offerings for both the value and specialty channels.



New for 2016

In the Pre-School business we will continue to develop the *Paw Patrol* franchise globally. In 2016 we will launch *Paw Patrol Season 3* on Nickleodeon together with a number of innovative *Paw Patrol* products. We will also launch a number of new entertainment and licensed Pre-School properties for 2016. We will launch *Rusty Rivets* on Nickelodeon and Treehouse in Fall 2016, *Noddy*

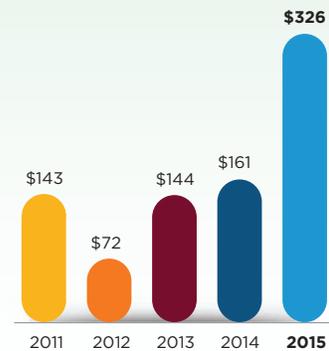


in international markets and *Masha and the Bear* in North America. *Rusty Rivets* is an internally developed show targeted primarily at boys aged 2-5.

In the Girls business we have a robust pipeline of new product introductions including *Brightlings*, an interactive plush toy with a technology overlay and *Chubby Puppies*, collectible pets that each feature unique movements. In the Girls licensed products area, we have secured master toy licenses for *Popples* and the global relaunch of *PowerPuff Girls*.

+22.9%⁽¹⁾

Gross Product Sales



(US\$ millions)

(1) Compound Annual Growth Rate 2011-2015.

ENTERTAINMENT AND BEYOND

Children's entertainment programming easily travels across geographies, cultures and ethnicities, fueling strong growth in global demand. Spin Master has successfully developed proprietary entertainment content including *Paw Patrol* and *Bakugan*, enhancing toy sales in the toy categories as well as developing auxiliary licensing and merchandising revenue streams from the content itself.





Shareholder Information

Head Office

450 Front Street West
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Canada

Toronto Stock Exchange Listing

Trading symbol: TOY
Securities listed: Subordinate
Voting Shares

Registrar and Transfer Agent

Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

Auditors

Deloitte LLP
181 Bay Street, Suite 1400
Toronto, Ontario M5J 2V1

Annual Meeting of Shareholders

May 12, 2016
Design Exchange
234 Bay Street
Toronto, Ontario M5K 1B2

Investor Contact Information

Email: investor.relations@spinmaster.com

Board of Directors

Anton Rabie, Chairman
John Cassaday, Lead Director
Jeffrey I. Cohen
Ben Gadbois
Ronnen Harary
Dina Howell
Todd Tappin
Ben Varadi
Charles Winograd

Executive Officers

(From Left to Right)

Ronnen Harary, Co-Chief
Executive Officer
Anton Rabie, Co-Chief
Executive Officer
Adam Beder, Executive
Vice President of Global
Licensing and Business
Affairs
Mark Segal, Executive
Vice President and Chief
Financial Officer
Christopher Beardall,
Executive Vice President
of Global Sales
Ben Gadbois, Global
President and Chief
Operating Officer
Ben Varadi, Executive
Vice President and Chief
Creative Officer
Bill Hess, Executive Vice
President of Operations and
Chief Information Officer
Christopher Harrs, Executive
Vice President and General
Counsel, Corporate Secretary
Nancy Zwiers, Executive
Vice President and Chief
Marketing Officer

Forward-Looking Statements

Certain statements, other than statements of historical fact, contained in this document constitute "forward-looking information" within the meaning of certain securities laws, including the Securities Act (Ontario). Forward-looking statements include, without limitation, statements with respect to: our growth strategies and objectives; innovation; development of new properties; international sales expansion; acquisitions; partnering with others; new products and entertainment properties to be introduced in 2016. The words "plans", "expects", "intend", "potential", "seek", "strategy", "vision" or "targets", or variations of such words and phrases or statements that certain future conditions, actions, events or results "will" or "would", or negative versions thereof, frequently identify forward-looking statements. Forward-looking statements are necessarily based upon our perception of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by us as of the date on which the statements are made in this document, are inherently subject to significant uncertainties and contingencies which could result in them being incorrect. The material factors and assumptions used to develop the forward-looking information include, but are not limited to: our ability of to maintain our distribution capabilities; our ability to recognize and capitalize on opportunities earlier than our competitors; our ability to continue to build and maintain strong, collaborative relationships; our status as a preferred collaborator; our culture and business structure will support our growth; our current business strategies will continue to be desirable on an international platform; the ability to expand our portfolio of owned branded intellectual property and successfully license it to third parties; the expanded use of advanced technology and robotics in our products; the increased access of entertainment content on mobile platforms; fragmentation of the market creates acquisition opportunities; our ability to maintain our relationships with employees, suppliers and retailers; our ability to continue to attract qualified personnel to support our development requirements; the continued involvement of the founders; and that the risk factors noted below, collectively, do not have a material impact on us. By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond our control, could cause actual results to differ materially from the forward-looking information in this document. Such factors include, without limitation, the following, which are discussed in greater detail in the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2015: creation of original products, brands and entertainment properties; industry competition; failure of third-party owners to maintain or enforce intellectual property licenses; failure to market or advertise products; dependence on Spin Master's founders and other key personnel; product line growth; failure to protect or enforce our intellectual property rights; failure to realize the full benefit of our licenses; relationships with inventors and entertainment content collaborators; future acquisitions, mergers or dispositions; dependence on third-party manufacturers and distributors; sales concentration with retailers; general economic conditions; failure to leverage our portfolio of brands and products across entertainment and media platforms; broadcast entertainment industry conditions; seasonality; international sales growth strategy; production and sale of private-label toys; product recalls, repairs, product liability claims and the absence or cost of insurance; litigation; implementation and timing of launches; delivery of raw materials, parts and components from suppliers or increase in the price of supplies; safety procedures; negative publicity and product reviews; interest rates and the availability of credit; system of internal controls; tax and regulatory compliance; withholding obligations with respect to equity participation arrangements; laws and government regulations; currency exchange rates; website system failures; electronic data compromises; failure to stay competitive amongst an increasing array of technology and entertainment offerings; and failure to stay competitive given the evolution of gaming. These risk factors are not intended to represent a complete list of the factors that could affect us and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about our expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law.



www.spinmaster.com

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