FINAL TRANSCRIPT

Spin Master Corp.

Spin Master Fiscal 2016 Third Quarter Results Conference Call

Event Date/Time: November 9, 2016 — 9:30 a.m. E.T.

Length: 54 minutes

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PRESENTATION

Operator

Good morning. My name is Tracy (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Spin Master Fiscal 2016 Third Quarter 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 Corp.

Good morning, and welcome to Spin Master's financial results conference call for the third quarter and nine months ended September 30, 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 third quarter financial results is available on the Investor Relations section of the Company's website at www.spinmaster.com, as are our Q3 MD&A and financial statements. This information is also available on SEDAR.

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 believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Many factors could cause actual results to differ materially from those expressed or implied by the forward-looking statements. As a result, Spin Master cannot guarantee that any forward-looking statements will materialize, and you are cautioned not to place undue reliance on these forward-looking statements.

Except as may be required by law, Spin Master has no obligation to update or revise any forward-looking statement, 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 November 8, 2016.

Please note again 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 Harary — Co-Chief Executive Officer, Spin Master Corp.

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

Yesterday we reported solid financial results for the third quarter and nine months ended September 30, 2016.

I'll begin the call with some strategic highlights. Following my remarks, Mark will provide you with a review of our financial results, and Ben will then talk about our growth initiatives.

The quarter was highlighted by the strong initial shipments of Hatchimals. We launched Hatchimals globally on October 7th as one of our successful product launches Spin Master has ever had.

Consumer demand has far exceeded ours' and retailer expectations. For a time in October, Hatchimals was the single biggest-selling toy at Amazon and Walmart in any category. In fact, in the week of October 9th, the first, second, and fourth best-selling toys in the United States were Hatchimal products. We intend to leverage the popularity of the initial launch to build Hatchimals into a long-term franchise driven by innovation.

The success of Hatchimals demonstrates our leadership in innovation and branding. Our global innovation capability and R&D and product development network represents a major competitive advantage for us, and we're confident we will continue to deliver exciting and unique products for kids.

During the third quarter we completed the purchase of Swimways and the creation of a new Outdoor business segment. This was our fifth acquisition since our IPO, and we think it's an ideal fit.

Swimways has a strong management team, and we believe we can create tremendous value by linking Swimways with our product innovation, expertise, and global distribution pipeline in order to build Swimways into a global brand. The prior owner of Swimways has stayed on with us after the acquisition, and he and his team are a beachhead for continued growth in the Outdoor category.

As I mentioned last quarter, our vision with Toca Boca and Sago Mini is to take our proven capabilities in toys and entertainment and combine it with Toca Boca and Sago Mini's mobile digital capabilities to provide an end-to-end experience for kids encompassing physical products, entertainment, and digital mobile.

We remain excited about the potential of Toca TV, the subscription-based video streaming business which launched in the US on October 6th in Apple's App Store at a 4.99 monthly subscription after a trial period.

As a reminder, Toca TV is a global interactive video platform designed for kids aged 5 to 9. It delivers content for them to discover and play with, including thousands of handpicked videos. Initial subscription results are encouraging. 2017 will be a year when we fine tune the Toca TV offering, and hopefully generate significant momentum as we ramp up PR and marketing efforts.

We are also launching an exclusive Toca Boca merchandising licensing program at a major US retailer for back-to-school in 2017. Contracts and categories are still being finalized, but are expected to be in the boys' and girls' apparel; accessories; sleepwear; bedding; plush; book; stationary; and backpacks.

As we've indicated before, one of our core strategies is to create evergreen TV franchises that maximize long-term revenue potential. We develop our TV shows and toy lines together with a strategy to maximize integration and distribution on a global basis.

The success of PAW Patrol highlights the strategy, and has established Spin Master as a major player in the pre-school segment. Our deepening partnership with Nickelodeon continues. Season three is now running in North America, the first episodes from season four will be launching in early 2017, and we're in production of the remaining episodes of season four and season five.

We are now preparing to build on the success with yesterday's launch of the first season of Rusty Rivets, which is scheduled for 26 half-hour episodes also on Nickelodeon. This new show, targeted at boys and girls aged 2 to 5, follows Rusty and Ruby, 21st century kids, who with his friend Ruby always saves the day by relying on his imagination and resourcefulness. Rusty invents his way out of every jam by repurposing spare parts and found objects into wild, cool contraptions.

At this point, we are focused on the North American toy launch for 2017, with Europe and the rest of the world rolling out at the beginning of 2018.

In addition to Rusty Rivets, we have a number of other exciting TV properties under development for the next few years, including the relaunch of Bakugan.

Overall, this was another strong quarter for Spin Master. We have a very exciting pipeline of products under development, and together with our five acquisitions our product development team has multiple opportunities to do what we do best: innovate for kids.

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

Mark Segal

Thanks, Ronnen. Our revenue increased 22.8 percent in Q3 2016 compared to last year, rising from 386.8 million to 475 million.

Excluding the impact of Cardinal, which was acquired in Q4 2015, our year-over-year revenue growth was 11.7 percent. In constant currency terms, revenue increased 23.6 percent compared to last year.

Q3 gross product sales increased 18 percent to 518.6 million compared to 439.5 million a year ago. Excluding the Cardinal acquisition, gross product sales rose 7.7 percent.

In the Activities, Games, Puzzles, and Fun Furniture segment, gross product sales rose 67.7 percent to 125 million, driven largely by Cardinal. Excluding Cardinal, sales in this segment rose 7.1 percent.

As a reminder, Cardinal was acquired at the beginning of Q4 2015. From Q4 2016 onwards, given that we will then have a full year completed, we will no longer be breaking out Cardinal results, and will talk to the Activities, Games, Puzzles, and Fun Furniture segment as a single unit.

In the Remote Control and Interactive Characters segment, gross product sales climbed 7.6 percent to 148.2 million. The strong initial sales of Hatchimals contributed to growth, offset by lower sales of Zoomer, DigiBirds, and Air Hogs.

Gross product sales in the Boys Action and High-Tech Construction segment declined 37.8 percent to 59.2 million, reflecting a negative comparison with the elevated sales of Star Wars-related products in 2015, in addition to Meccano and How To Train Your Dragon.

We had another very strong quarter in the Pre-School and Girls segment, where gross product sales rose 37.4 percent to 181.2 million. That was due to robust sales of PAW Patrol, which continues to be a flagship global brand for us. We also saw solid sales contributions from Brightlings and Powerpuff Girls.

Gross product sales in our new Outdoor business segment totalled $5 million. This new business segment was established in this quarter when we acquired Swimways.

On a geographic basis, Spin Master's strong global platform drove gross product sales increases of 47.3 percent in Europe, 12.3 percent in North America, and 12.1 percent in the rest of the world.

Other revenue, which is primarily merchandising, royalty, and television distribution income from products marketed by third parties using Spin Master's owned intellectual property, as well as app revenue from Toca Boca and Sago Mini, increased 277.5 percent to 17.3 million this quarter from 4.6 million in Q3 '15.

Our gross product increased 20.7 percent in Q3 to 247.7 million, representing 52.2 percent of revenue. That compares to 205.2 million in Q3 '15, which represented 53.1 percent of revenue. The year-over-year 0.9 percent reduction in gross margin was driven primarily by Cardinal's gross margin, which is lower than Spin Master's, partially offset by higher licensing and merchandising income.

Total SG&A expenses in the third quarter were 128.8 million, representing 26.2 percent of revenue. By comparison, SG&A represented 23.8 percent of revenue last year.

The increase in SG&A as a percentage of revenue was due to higher distribution costs; increased marketing expenditures; admin costs from acquired companies; and the costs of completing the Swimways acquisition.

Marketing expenses of 24.1 million represented 5.1 percent of revenue compared to 4.1 percent last year, as we increased marketing spend on US media for key brands such as PAW Patrol; Air Hogs; Brightlings; Secret Life of Pets; and Meccano, as well as increased PR, research, and commercial development. The highly successful North American PAW Patrol tour was a key element of our increased PR spend and was attended by over 1.3 million people.

Product development expenses of $6.3 million represented 1.3 percent of revenue compared to 1.1 percent last year. Q3 this year was higher than last year, primarily due to the launch of the augmented reality Air Hogs Connect: Mission Drone, which Ben will describe later.

Selling expenses of 30.3 million represented 6.4 percent of revenue, consistent with 2015. Distribution expenses of 7.7 million represented 1.6 percent of revenue compared to 1.2 percent in Q3 2015, driven primarily by increased inventory storage costs.

The increase was associated with us bringing in $10 million of inventory earlier due to the G20 summit in China in order to avoid any shipping delays; continued strong growth in Europe, which has a higher domestic versus FOB sales mix; and Cardinal, which also a higher domestic versus FOB sales mix in North America and was not incorporated in last year's results.

These increases in inventory and distribution expenses are to support our expanding business and continued growth. We closely monitor point of sale and supply and demand, and are focused on ensuring that we are clean at the end of the year, both internally and at retail.

The management of inventory on our balance sheet and at retail is very tightly monitored, and is one of the key metrics for managing the Company.

Admin expenses were 12.8 percent of revenue compared with 22.3 percent last year. 2015 included significant IPO-related shared-based compensation expense. Excluding the impact of share-based compensation, admin expenses represented 11.8 percent of revenue compared to 11 percent last year.

If the admin costs of the companies we acquired for which there are no comparative costs in 2015, as well as acquisition transaction costs are excluded, admin costs as a percentage of revenue decreased to 10.4 percent compared to 11 percent last year. This demonstrates our ongoing ability to generate operating leverage.

Overall in the third quarter net income was up 63 percent year over year to 83.3 million or $0.82 a share. Adjusted net income in Q3 was 87.5 million or $0.86 a share, up 6.4 percent from 80.4 million last year.

Adjusted EBITDA increased 12.3 percent in Q3 to 133.3 million compared to 118.7 million last year. Adjusted EBITDA margins for the quarter decreased to 28.1 percent compared to 30.7 percent last year, reflecting lower gross margins and the higher distribution and marketing expenses I mentioned previously.

Free cash flow was 117.2 million compared to 75.8 million in Q3 last year. The increase was due to higher operating cash flows before working capital changes.

Regarding the Swimways acquisition, the purchase price was $85 million in cash less an escrow for possible adjustments, plus up to 8.5 million payable over four years based on Swimways' sales growth. We financed the purchase through our existing credit facility.

Turning now to the nine months ended September 30, 2016. Spin Master generated revenue of 816.1 million, an increase of 31.4 percent from 621 million last year.

In constant currency terms, revenue increased by 32.5 percent year to date relative to the comparable period in 2015. Excluding the acquisition of Cardinal, year-to-date revenue increased 18.8 percent compared to 2015.

Gross product sales increased 26.3 percent to 878.4 million from 695.2 million last year. Excluding the acquisition of Cardinal, gross product sales increased 14.4 percent. On a geographic basis, gross product sales increased by 22.6 percent in North America, 41.9 percent in Europe, and 25.2 percent in the rest of the world.

Year to date, gross profit increased to 424.7 million, or 52 percent of revenue compared with 327.3 million, or 52.7 percent of revenue in 2015. The slight reduction in year-to-date gross margin was primarily attributable to Cardinal gross margins, partially offset by product mix and increased licensing and merchandising income and productivity initiatives.

Adjusted EBITDA for the nine months ended September 30th increased to 182.6 million, up 24.4 percent from 146.8 million for the same period in ‘15. Year-to-date adjusted EBITDA margins decreased to 22.4 percent from 23.6 percent in 2015, reflecting lower gross margins, higher royalties, distribution and marketing expenses, partially offset by administrative operating leverage.

Free cash flow year to date was 122.6 million compared to 73.4 million for the same period in 2015. Our free cash flow to adjusted EBITDA conversion ratio increased to 67.1 percent from 50 percent last year.

Turning now to our outlook for the full year 2016. We now expect organic gross product sales growth to be slightly higher than the guidance provided in connection with the release of Q2 results in August 2016, with organic gross product sales expected to grow in the high teens to low 20 percent range relative to 2015.

Previous guidance provided in connection with the release of Q2 results expected organic gross product sales growth in the high teens relative to 2015.

From a seasonality perspective, Spin Master expects gross product sales to be in line with previous guidance for the first half of 2016, representing approximately 30 percent of total 2016 gross product sales and the second half representing approximately 70 percent.

Adjusted EBITDA margins for 2016, excluding the Toca Boca and Swimways acquisitions, are expected to increase slightly compared with 2015. Adjusted EBITDA margins for 2016, including the Toca Boca and Swimways acquisitions, are expected to be in line with 2015.

Looking ahead to 2017, we will provide gross product sales growth, expected seasonality, and adjusted EBITDA margin guidance when we report our fourth quarter and full year 2016 results in early March. This will allow us to incorporate customer feedback into our outlook from the critical trade shows in Hong Kong, New York, and Nuremberg, all of which occur in Q1.

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

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

Thank you, Mark. We're very pleased with our financial and operating results in the third quarter and the year to date. Our growth is grounded in clearly defined strategies. We're sticking to them, and they're working.

We believe we're delivering on all four of our key growth strategies: to innovate the core; grow our international sales; create successful global entertainment properties; and identify and execute acquisition opportunities.

First, we will continue to consistently infuse innovation into our portfolio of brands and products. Our internal 36-month brand innovation process facilitate the identification of market opportunities that we then capitalize on through product development or acquisitions.

The Hatchimal launch was an important event for us and a testament to our innovation and marketing capability. Hatchimal was launched, or hatched, globally on October 7th. Up to that date, no one had seen the creature inside the egg, and that was a big factor in driving consumer excitement.

Hatchimal was developed through our rolling 36-month innovation pipeline, and it demonstrates how crucial innovation is to our success.

Customer demand has far exceeded our expectation. We are ramping up production as fast as we can, but demand is still far ahead of supply.

In partnership with retailers, we are flying in product from our manufacturing facilities in Asia to try to meet demand. However, we're still going to be short of consumer demand for the fourth quarter.

Our expectations are very positive for Hatchimal in 2017. We'll have products available after Christmas, and we anticipate plenty of gift card demand early in 2017. Given our initial success, we are continuing to expand and build the Hatchimal brand for 2017 and beyond.

Other products launched within the last 12 months continue to get good support from retailers. In the Interactive Character category, Zoomer items such as Meowzies, Hedgiez, and Kitty are all tracking well. Zoomer Chimp is our higher-price point Zoomer item ever, and the marketing campaign has just started, which we expect will accelerate demand. The PAW Patrol Team Zoomer Marshall is also doing very well.

In Radio Control, we started our advertising campaign of the Thunder Trax item late in Q3, and we have already seen strong lift. We are also launching several new Star Wars items, but it's too early to discuss POS at this time. Chubby Puppies continue to drive strong POS.

In Activities, Build-A-Bear and Pottery Cool are both tracking to strong sell through. We are continuing to see positive results overall with Bunchems.

In Construction, we are seeing a lift in the Meccano core. Meccanoid 2.0 and Micronoid are tracking to expectation. As a reminder, a large portion of the sales from Meccano, particularly at the higher price point, happen late in Q4, and at this point we do not have a clean read on POS.

On the licensing front, we’re working hard with our partners Cartoon Network to ensure that Powerpuff Girl remains viable for years to come.

Regarding Secret Life of Pets, as is quite normal post-launch, sales have declined from their peak. Secret Life of Pets is selling through in line with most movie-related traditional toy categories. We are expecting that the release of the Secret Life of Pets DVD and direct-to-TV will increase consumer engagement with the brand and drive increases in sell-through.

Regarding Star Wars, the Going Rouge launch event was executed one month later than 2015’s Force Friday at the end of September compared to the beginning of September in 2016. As a result, some Q3 POS has shifted to Q4.

In addition, at an industry level Stars Wars POS to date is approximately half of what Force Friday produced in 2015 according to our retail partners and NPD. We expect as we move closer to the movie launch that studio marketing, combined with our TV advertised segment, will drive an increase in demand.

Overall, our innovation pipeline remains very strong across all of our business segments as we plan our new products offering for the next few years. And of course, we're always looking at what we can do towards existing brands.

For example, we are repositioning our Air Hogs brand with new product launches such as Thunder Trax and Air Hogs Connect: Mission Drone that incorporate some industry-leading advanced technology. Air Hogs augmented reality is the only brand of remote control toy that challenges kids to compete inside an augmented reality world.

Our initial launch, Air Hogs Connect: Mission Drone, is the first to deliver an immersive augmented reality game experience where players fly a physical drone in an interactive 3D digital universe. Mission Drone was named Best Game or Toy for 2016 at the Augmented World Expo earlier this year. We are also working on further Air Hogs augmented reality products for 2017 and beyond.

With regards to our second growth strategy, which is to develop global entertainment properties, we had significantly higher year-over-year sales of PAW Patrol in Q3. Season three is now running in North America. The first episode from season four will be launching in early 2017, and we are in production of the remaining episodes of season four and five. In addition, we are already in development of season six.

In Europe, PAW Patrol season two is now running. Early episodes of season three have started in key markets and are now rolling out across the broadcast platforms. In Germany, we have a new free-to-air broadcast partner who will launch with season two, followed by a rerun of season one in early 2017.

We are 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 high ratings, crosses many cultural boundaries, and has strong support from our partners globally.

As a reminder, in some territories such as Asia and others PAW Patrol has not yet launched, and we see this as a potential long-term opportunity.

We're very excited about yesterday's launch of our new show Rusty Rivets on Nickelodeon. This collaboration continues to strengthen our relationship with Nickelodeon. The Rusty Rivets show will be supported by an innovative toy line that we're launching in 2017.

Our strategy is to develop evergreen TV franchises in order to maximize revenue and integration opportunities with our toy business. This strategy has worked very well with PAW Patrol, and we believe that we can repeat it with Rusty Rivets and other upcoming properties. We want to launch at least one new entertainment property per year, and are working on new shows for 2017 and beyond that can be integrated with our toy line.

We announced a partnership with Cepia on September 13th for the exclusive global manufacturing and distribution rights of certain of their product lines, including the relaunch of the 2007 global success ZhuZhu Pets. We see the development of an innovative relaunch Cepia line, including ZhuZhu Pets, Chuckle Ball, and Charm U as an opportunity to leverage our global distribution network and expand our rosters of global properties for 2017 and beyond.

Turning to our international growth strategy. We have made tremendous inroads into the European market, with gross product sales rising over 47 percent in Europe in Q3 2016. Over the last year we have entered a new market across Europe, we've expanded our sales and distribution capabilities, and we've boosted our product offering with the Cardinal and EG acquisitions.

Cardinal and Swimways are still primarily focused in North America. We see a lot of opportunities to grow these businesses internationally and are already making progress on that front.

In addition, we are currently evaluating new strategies to continue to boost our marketing and sales capabilities in Europe. We have a new sales and marketing office opening in January 2017 in Prague serving the five countries comprising our Central and Eastern European region: Poland; Czech Republic; Slovakia; Hungary; and Romania. Internationally, we're on track to open our office in Australia in January 2017.

Our fourth growth strategy is to make strategic acquisitions. Cardinal continues to be integrated and is showing strong growth. North American retailers are responding well to our program management capability and our operational efficiencies. Our international sales are gaining momentum. We are confident that 2017 will be a strong year for Cardinal.

Two key acquisitions we completed this year were Toca Boca and Swimways. Toca Boca and Sago Mini mobile apps continue to perform well, and we currently hold six of the top ten apps on Apple Kids paid app rankings. Toca Boca's most recent launch in its Toca Life series, Toca Life: Vacation, which launched in June 2016, was the strongest launch to date. The next apps in the Toca Life series, Farm and Stable, launched recently.

Sago Mini launched a new physical product line focused on kids age 2 to 5, based on the content in their apps sold through amazon.com, Indigo, and Barnes and Noble. The line includes playsets; floor puzzles; quilts; story books; and plush stuffed animals. It's too early to talk about results, but nonetheless the team is executing well against their strategy.

As I mentioned last quarter, the acquisition of Swimways delivers on several key business strategies, including giving us the opportunity to drive sales outside of the seasonality traditionally associated with toys and games. This will also allow us to leverage our operational infrastructure.

Swimways has a strong management team who remains in place. The integration of Swimways has gone smoothly so far, and we look forward to working with them to infuse Spin Master's innovation and fun into the Swimways product portfolio and growing our new Outdoor segment.

Etch A Sketch continues to be a focus of innovation in the Activities business segment, and we will see new products evolving from this acquisition in the next few years.

The integration of EG Games in Italy has gone smoothly and is helping us drive games volume up in Italy for EG, as well as for Spin Master and Cardinal.

We continue to seek out new acquisition opportunities and build our pipeline. We're confident that we'll be able to acquire more brands and enter new categories that fit nicely into our strategy, and allow us to add value through our expertise in innovation, marketing, and distribution. But of course, we'll always be careful and disciplined when evaluating M&A opportunities to ensure our acquisition criteria are met.

To conclude, as we are heading into the fourth quarter we still have a lot of work ahead of us to conclude the year and ensure that our expectations are met. I would note that while we're very pleased with the Company's performance to date in 2016, we still see tremendous growth opportunities ahead.

We are continuing to make progress on all four of our key growth strategies in 2016, and we are confident that we can leverage our current base to continue building on them in 2017 and beyond.

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

Operator, please begin the question period.

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. Just on the adjusted EBITDA margin if we look going forward, you've talked previously about getting to about 19 to 20 percent over the long run. Can we maybe talk about what kind of trajectory we're thinking to get there? Is it some meaningful jumps if you have additional platforms like Rusty Rivets that launch? Or is it more kind of steady over the next three to five years?

Mark Segal

Okay. Good morning, Sabahat. Yeah. So that's actually—it's going to require a little bit of a detailed answer for me to get to that, but let me walk you through it.

You obviously saw a decline year to date of around 1.3 percent in our adjusted EBITDA margin. That was driven by gross margin declines, also some increased marketing and storage costs, and also some acquisition-related administration and acquisition costs. Now if you look at that, though—if you look at the core of the business then you look at Toca Boca and Cardinal and Swimways, we've consistently said that the acquisitions that we've made are going take a little bit of time to get our margins up to the core levels of Spin Master, which if you look at 2015 adjusted EBITDA margins were 18.2 percent.

And as a reminder, our adjusted EBITDA margin calculation is based on revenue, or net sales. And so if you look at that 18.2 percent, all of the acquisitions we've made are slightly dilutive to that.

But we're actually looking at Cardinal now; we're integrating Cardinal as Ben described; we're seeing some positive results. Cardinal is dollar accretive, and hopefully will be margin accretive as well at some point as we get through the integration fully.

Swimways is a company that has operated in the low teens from an adjusted EBITDA margin perspective. And as we focus on our productivity programs around value engineering; volume rebate; strategic sourcing; we're putting in SAP; we're looking at strategic pricing in Swimways, all of those factors, we think, will help us get our margins in Swimways up to the high teens at least close to our Spin Master margin.

Then you have Toca Boca, which is a slightly different story; obviously a very different business in the mobile digital space. We're investing in Toca TV; we're investing in the licensing and merchandising programs. So Toca TV will likely be margin dilutive for a while.

But overall, Sabahat, we're comfortable with the core business of Spin Master in the lower 18 percent area, and we're working really hard to get the acquisitions that we've made up to that line as well. We think we can still generate margin growth, but that does depend on us executing on our acquisition integration.

We think we can get there, but I'm not really prepared to put a time line to that right now. But we certainly do see that as a possibility over time.

Sabahat Khan

All right. Great. Thanks. And then just on the distribution agreement you signed with Cepia, it's a little obviously different from some of the acquisitions you've done. How do you consider opportunities like this versus acquisitions? Does somebody like a Cepia come up to you and ask to leverage your larger platform? Or is there more opportunities like that out there as well if we look into the future?

Ben Gadbois

It's a good question, Sabahat. So Cepia is—it's almost it's more in line as doing a licensing deal structure versus an acquisition. Although the two companies will obviously work very closely in their different properties, such as ZhuZhu Pets, Chuckle Ball, Charm U, and there will also be a show that Cepia is managing that will be airing on Disney Channel in the USA and other networks outside the USA.

But it's not really structured as an acquisition. It's more of a partnership similar to how we would deal with a licensee.

Sabahat Khan

Okay. Perfect. Thank you.

Operator

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

Brian Morrison — TD Securities

Good morning. Mark, can you help me reconcile the acquisition contributions in terms of gross product sales? Specifically I'm looking at the organic growth rate you noted at 7.7 percent. Within your MD&A it implies Cardinal contributed about 45 million in GPS, but on Page 18 the revenue, I realize—not GPS—was 27 million. So is the Cardinal GPS contribution 45 million? And should we also back out Swim to get to an organic growth rate? Maybe you could just identify the contribution from each acquisition in GPS and reconcile the Cardinal GPS versus revenue, please?

Mark Segal

Well, yeah, so I can give you the percentages. So if you look at for the quarter, Brian, our gross product sales, excluding Cardinal, were up 7.7 percent. Revenue excluding Cardinal was up 11.7 percent. For the quarter in dollars, gross product sales were around 45 million and for the year around $82.7 million.

There were some sales in the quarter as well from Swimways, which we broke out in that Outdoor segment that we disclosed. It's only around $5 million. So if you add those two together that's the organic growth rate.

There is some app revenue from Toca Boca and Sago Mini in our other revenue line, but we don't break that out for public consumption in terms of other revenue. But there is app revenue in that other revenue line as well. It doesn't affect the question that you just asked me.

Brian Morrison

Okay. So basically just—

Mark Segal

Does that help you?

Brian Morrison

Yeah. It does. Can you maybe just reconcile the difference between Cardinal's gross product sales and the revenue in the quarter?

Mark Segal

Yeah. I'm going to have to—look, gross product sales was 45.2. Perhaps I can get back to you afterwards, Brian, on the net sales. I mean sales allowances are in single-digit, low-single digit range.

Brian Morrison

Right.

Mark Segal

So it should really be around 95 percent of $45 million, Brian their net sales for the quarter.

Brian Morrison

Okay. It just—

Mark Segal

If it's not that then we'll have to just get back to you and correct that—

Brian Morrison

Sure. Maybe we can talk after. Maybe we can just on Cardinal, it clearly looks like the growth remains in North America. Is it a fair comment that the organic—or pardon me, the international growth still remains to be overlaid? And what's driving this outsized growth in Cardinal in North America again this quarter?

Mark Segal

Okay. So I'll have a…I'll answer that, and then I'll pass over to Ben as well. When we acquired the company, the vast majority of the sales were in North America. What we did was we acquired the FOB rights as well, and we spent the last nine months really driving FOB sales for Cardinal globally in effect but mainly towards North America.

So we've seen domestic revenue growth for Cardinal, as well as FOB revenue growth for Cardinal. And we're also seeing some beginnings of European growth as well.

Ben Gadbois

Yeah. And just to add, Brian, when we look at Europe, things take time to incubate. And the way the process works is we this year have been able to place some of the Cardinal portfolio into selected retailers across Europe, but there's already—obviously it's a competitive market, so what retailers will normally do is they will list some of our SKUs and some of our products. And then they see what the consumer read in POS is over the next 6 months and 12 months, and as we achieve success we then build credibility with the portfolio. And then you ramp it up from there.

So your comment of saying that we have not yet seen a lot of the upside with Cardinal outside of North America is accurate, but we are working on it, and it is building.

Brian Morrison

That's helpful. Last question just housekeeping on PAW Patrol; is 25 percent still a good number for the annual contribution of gross product sales?

Mark Segal

Yeah. Brian, in that order of magnitude is what we're expecting for 2016.

Brian Morrison

Thank you very much.

Operator

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

Adam Shine — National Bank Finance

Thanks a lot. Good morning. So I guess apropos last night we can say that the Democrats laid some Hatchimals last night. Speaking of Hatchimals, can you talk about—and this may be a question for Ronnen, as well as for Mark; I'll touch the Mark question first—is it Hatchimals that drives some of the incremental upside to the outlook? Or are there a number of other factors worth highlighting? And then maybe circling back to Ronnen and maybe Ben as well, given the success ahead of your expectations of the product, which clearly was exciting to see, at least the outside at

Toy Fair, you want to touch on a few items? I mean it's a product that's geared to 5 plus. Are we seeing a significant expansion of the demographic in terms of consumer appetite? And then maybe I'll follow up thereafter.

Mark Segal

Okay. I'll go first, and then I'll pass it over to you, Ronnen and Ben. So I think in terms of our outlook, Hatchimals definitely was a factor in terms of the slight increase in the outlook, but we are seeing decent POS and strong POS in other areas as well across the board. So that was the reason why we moved our outlook for gross product sales up slightly.

In terms of the colour behind that, Ben why don't you give some colour?

Ben Gadbois

Yeah. Maybe before I pass it to Ronnen, Adam, let me talk about Hatchimal a little bit on the macro level, just to make sure that we understand how Hatchimal is performing overall. So if you look at NPD for the last week, Hatchimal was number 1, number 2, number 6, and number 9 in the top 10 items in the USA according to NPD.

And then if you include PAW Patrol, Spin Master had five out of 10 of the top 10 items in the US market last week. And just an hour ago I just got the NPD result of France for last week, and Spin Master had six out of the top 10 items in that market, so going back to…so obviously Hatchimal is having a tremendous impact in the market.

And look, the reality is we and our retailers have underestimated the massive success of Hatchimal, and the consumer response has been extraordinary and has exceeded all of our expectations.

So some of the shipments have already sold out; we have other products that are on their way. We've increased production, but we still expect to be short in the fourth quarter. And as far as what that means for the future—and Ronnen can talk about some of the innovation and some of the demographic in terms of the consumer base—but we're also already hard at work for 2017 and beyond to continue to grow the brand and expand the brand. And we also know that success drives imitation in different form, and we've done extensive amount of work to protect our work with intellectual properties across the world.

So we feel very optimistic with Hatchimal, and we will continue to spend time on innovating the brand.

Ronnen Harary

Adam, I'm so happy I got a question. I get jealous that Mark and Ben get most of the questions. From a qualitative perspective, I think that the thing that's surprising us about Hatchimals is that it is girls and boys, so it's crossing both genders.

Originally we thought it would be leaning more towards girls. It is more of a traditional…we thought it would lean more towards girls, but there's a lot of boys buying the product, which is increasing the sales.

The other thing that surprises us is that there's actually collectability at a $60 price point, which really doesn't happen very often. So people are actually collecting or buying numerous Hatchimals and having numerous ones. People are searching for specific colours and specific species. So we launched with about I think it was 12 or 14 different species in the line, and we thought that would be the right mix. So people have really taken to that.

And I'm really proud of the team for being able to innovate something like this, because so much R&D went into the actual shell, right? How do you make a shell that cracks and passes all the safety standards and soften up and doesn't just fall apart, and we were able to apply…we have a patent pending, which is really nice for the actual egg shape and the formulation of the material of the egg, which is great.

And then, again, just to have something that can work straight out of the box when—one of the engineers in Hong Kong came up with this—when you actually unlatch the egg from the package you click something on the bottom, and that actually turns it on. And the fact that it stays on and it comes with a battery and you don't have to load the batteries and it doesn't die on you. And the fact that it actually—you can actually hatch it for 20 minutes and then put it down like the one I have in my office and I haven't touched it in three weeks, but once in a while when I get anxious I like to turn it on—I'm bored—and I love it a little bit, and there it just comes to life. It was sleeping for three weeks.

So I think the execution, which is a real testament collectively amongst everybody in the Company, has been exceptional. And I think that's translated to an incredible consumer experience, and a real opportunity for us to leverage this amazing PR that's just self-generated because people have a strong affinity to the product to build the brand. And the team is very—they had plans to obviously continue the line extension, but this has accelerated stuff in our pipeline.

Adam Shine

Great. Thanks for that. I'll leave it there.

Ronnen Harary

Thank you.

Operator

Your next question comes from the line of David McFadgen with Cormark Securities. Your line is open.

David McFadgen — Cormark Securities

Thank you. A couple questions; so just continuing on the line of Hatchimal, when you gave those numbers of number 1, 2, 6, and 9, was that the last week or last couple weeks? Just I wasn't able to find that out.

Ben Gadbois

Yeah. It was last week, but that trend has obviously been building over the last few weeks. Hatchimal was launched—the original, the global hatch day was October 7th, so it's only been in the market for one month, so we saw very fast results in all of the geographies.

David McFadgen

Okay. So obviously it sounds like a great success. Can you give us any idea of the magnitude in terms of how it's hitting your numbers, revenue or unit shipments or anything like that?

Mark Segal

Yeah. So, David, we don't break out individual product revenues or units. But you can see from the results in the segment, which is in the Radio Controlled (sic) [Remote Control] and Interactive Characters segment that it is driving nice growth in that area. And Ben described, we're going to be short for this year and looking to build on it for 2017, and hopefully with innovation coming down the line it will be something that we'll be talking about for some time.

David McFadgen

Okay. So just moving on to PAW Patrol then, you talked about the ratings, how the ratings are doing well across multiple territories. Can you give us any more specifics in terms of how the show would rank on the various networks for its demo or it's time period? Would it be number 1? Number 2?nything like that?

Ben Gadbois

We have not seen any—I mean PAW Patrol, as we discussed previously and earlier in the year, is in 160 different markets and countries. And it's been ranked as the number 1, number 2 in almost all the markets. And we've not seen any changes in the ranking.

And we also—so what we also look—and we measurably obviously the POS in all of those key geographies—we're also not seeing any slowdown in the POS of PAW Patrol. And this season we're launching some key items as well, some new items in the market, and the POS is very strong across the whole line.

David McFadgen

Okay. And then just lastly just on the Swimways acquisition, so the revenue was 5 million in the quarter; it was a bit light relative to what I was thinking for it, but I was just wondering was it in line with your expectations?

Mark Segal

Yeah. So just keep in mind, David, the seasonality of Swimways is very much skewed towards H1. It's 80 percent H1, 20 percent H2 in terms of the seasonality breakdown. And if you look at Swimways' 2015 results, they did around $90 million in gross sales. So we expect that the revenue for H2 to be pretty light. And we only acquired the company in August, so the contribution for the quarter was very small. And the same will apply to Q4.

David McFadgen

Okay. All right. Okay. Thanks a lot.

Ben Gadbois

Thanks, David.

Operator

As a reminder, in order to ask a question, please press *, 1, on your telephone keypad. Your next question comes from the line of Lauren Wolff with Piper Jaffray. Your line is open.

Lauren Wolff — Piper Jaffray

Good morning, and thank you for taking my question. First, could you just give us a sense of relative retail-level inventories headed into the holiday season? And secondly, Europe was particularly strong this quarter. Could you discuss expectations for geographic growth over the next few years? And how global markets factor into your product development process?

Ben Gadbois

Okay. So let me—I'll take the question regarding the inventory level and maybe the European growth. So when we look at the inventory level, we as a company feel that we have the right inventory level with all of our retailer partners. We feel that we're properly positioned for the holidays and the high seasons coming ahead, and we're also very hard at work and focused on measuring all the POS and all the inventory level constantly every week with all the key folks in the Company and with all of our retail partners to make sure that at the end of the year we have extremely strong sell-through that at least exceed…I mean meet or exceed our expectation. So overall we feel good with the retail inventory.

When it comes to Europe we've had a—you're right—we had a great quarter in Europe. What's happening in Europe is we've discussed our key strategy in the past of opening more doors by increasing our marketing activities and also making sure that we're very focused on pushing the whole portfolio through these new doors.

What we're seeing is PAW Patrol is a tremendous success in Europe, and it has allowed us to accelerate the openings of a lot of new doors and partnering up with new retailers in Europe. So we've then been able to increase our portfolio penetration across Europe.

And then, Mark, do you want to talk about the outlook?

Mark Segal

Yeah. So I just want to give you a couple of stats, Lauren, that will also help you. At the end of Q3, our total international business was at 31 percent of our sales. At the end of Q3 2015 we were at 29 percent. So we are seeing our international growth strategy that we've all described starting to play out. Our goal is to get to 40 percent in the next few years, and so we're on that trajectory to get there, and we're pretty pleased with that.

Just one micro point on inventory which we raised in the actual script earlier—but just to talk about it again very briefly because I'm not sure everyone picked it up—was when we grow our European business, Europe is much more domestically focused than the rest of North America is. And so our inventory levels in dollar terms are going to go up because we have to carry more inventory in Europe in order to service that growth.

In North America we sell more FOB Hong Kong, whereas in Europe the retailers expect us to carry that inventory domestically in our warehouses there. So please just keep that in mind.

Lauren Wolff

That's helpful. Thank you.

Operator

There are no further questions at this time. I turn the call back over to the presenters.

Mark Segal

Okay. Well, thank you, everyone. I appreciate you taking the time to join us on this call, especially during this period of volatility with the election results coming in.

So thank you, and we look forward to talking to you again at our next quarterly call.

Thank you.

Operator

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

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