



JAKKS Pacific Reports Third Quarter 2021 Financial Results

10/27/21

Strong Halloween and Robust Holiday Season On-Track

SANTA MONICA, Calif.--(BUSINESS WIRE)--Oct. 27, 2021-- JAKKS Pacific, Inc. [NASDAQ: JAKK] today reported financial results for the third quarter ended September 30, 2021.

Highlights

- Third quarter 2021 net sales were \$237.0 million compared to \$242.3 million last year
 - Costumes segment is the strongest performer with \$64.0 million in net sales, 16.4% growth vs. Q3 2020; 21.2% growth year-to-date vs. 2020
 - Year-to-date total company net sales were \$433.2 million, 11.8% higher than prior year
- Gross margin of 31.6%, up from 30.8%, an improvement of 82 basis points year-over-year despite higher ocean freight expense
- Net inventory level at seasonally high \$89.8 million, \$40.1 million in transit to JAKKS warehouses
- Liquidity of \$69.8 million with cash of \$26.7 million and revolver availability of \$43.1 million
- Q3 2021 net income attributable to common stockholders of \$36.0 million, or \$3.97 per diluted share
 - Adjusted net income attributable to common stockholders of \$34.2 million, or \$3.76 per diluted share, an improvement from \$32.6 million, or \$3.56 per diluted share in the comparable prior year period
- Year-to-date Adjusted EBITDA of \$44.2 million up 80+% vs. \$24.3 million in the comparable 2020 period
- Conversion of the balance of Senior Convertible Notes reduces debt to \$95.8 million, a 46% reduction from the recapitalization two years ago

Management Commentary

"Our focus on improved product margins and cleaner retail sell-through helped mitigate higher ocean freight costs to improve our year-over-year gross margins for the 7th straight quarter," said Stephen Berman, JAKKS Pacific's Chairman and CEO. "Retail sales of our products remained strong in the third quarter. Our top three US customers in the aggregate reported an increase in year-to-date toy POS sell-through just above 9% through the first nine months, with a slight acceleration in Q3. JAKKS was started as an FOB business and we continue to do over 50% of our sales that way today. This focus has benefited us all year, inclusive of Q3, leveraging the supply-chain strength and scale of the major global retailers to pull our product through to the retail shelf during this period of significant supply-chain disruption. We have accelerated our imports of inventory to support sales in the US and Internationally for the holiday season and resetting for the new year. Consistent with recent quarters, we continue to see tremendous consumer and customer reaction to our current product line-up, but supply-chain bottlenecks weighed on our results.

"We are pleased to show progress on profitability despite the continuation of the pandemic and related challenges. As we hoped, consumers have embraced the Halloween season this year with a burst of pent-up demand. Sell-thru rates are exceeding 2019 levels. As we look ahead into Q4 we're excited to be introducing some key new items for the Holiday gift-giving season, including our Nintendo® Super Mario™ Deluxe Bowser's Airship Playset and our Sonic the Hedgehog™ Giant Eggman Robot Battle Set both of which have received strong retailer and consumer reaction.

"As we look ahead to 2022 and beyond, we are excited about both where we are and where we're headed. We believe we have made tremendous progress since our recapitalization two years ago, and we are working on new initiatives for 2022 and beyond to deliver additional top-line growth and bottom-line margin improvement."

Net sales for the third quarter 2021 were \$237.0 million down 2.2% versus \$242.3 million last year. The decline was not for lack of customer orders or retail sell-through. We attribute it to logistical delays in customers picking up FOB China orders and the extended timelines to deliver inventory into our US and European warehouses for domestic replenishment. Although net sales in the Toys/Consumer Products segment were down 7.7% globally, net sales of the Costumes segment increased 16.4% compared to Q3 2020 and are up 21.2% for the first nine months of 2021 compared to the same period in 2020.

Despite the sales decline, net income attributable to common stockholders increased to \$36.0 million, or \$3.97 per diluted share, compared to \$32.1 million, or \$3.19 per diluted share for the third quarter of 2020. Net income in both years included significant charges and gains related to non-cash valuation adjustments. Excluding those elements and the 2021 gain from loan forgiveness, adjusted net income attributable to common stockholders (a non-GAAP measure) was \$34.2 million, or \$3.76 per diluted share in the third quarter of 2021 versus \$32.6 million or \$3.56 per diluted share in the third quarter of 2020. See note below on "Use of Non-GAAP Financial Information."

Cash and Cash Equivalents

The Company's cash and cash equivalents (including restricted cash) totaled \$26.7 million as of September 30, 2021 compared to \$92.7 million as of December 31, 2020 and \$79.8 million as of September 30, 2020.

Use of Non-GAAP Financial Information

In addition to the preliminary results reported in accordance with U.S. GAAP included in this release, the Company has provided certain non-GAAP financial information including Adjusted EBITDA which is a non-GAAP metric that excludes various items that are detailed in the financial tables and accompanying footnotes reconciling GAAP to non-GAAP results contained in this release. Management believes that the presentation of these non-GAAP financial measures provides useful information to investors because the information may allow investors to better evaluate ongoing business performance and certain components of the Company's results. In addition, the Company believes that the presentation of these financial measures enhances an investor's ability to make period-to-period comparisons of the Company's operating results. This information should be considered in addition to the results presented in accordance with GAAP, and should not be considered a substitute for the GAAP results. The Company has reconciled the non-GAAP financial information included in this release to the nearest GAAP measures. See the attached "Reconciliation of Non-GAAP Financial Information." "Liquidity" is calculated as cash and cash equivalents, including restricted cash, plus availability under the Company's \$67.5 million revolving credit facility.

Conference Call Live Webcast

JAKKS Pacific will webcast its third quarter earnings call at 5:00 p.m. Eastern Time/2:00 p.m. Pacific Time today. To listen to the live webcast and access the accompanying presentation slides, go to www.jakks.com/investors and click on the earnings website link under the Presentations tab at least 20 minutes prior to register, download and install any necessary audio software.

A replay of the call will be available on JAKKS' website approximately two hours following completion of the call through November 3, 2021 ending at 10:00 p.m. Eastern Time/7:00 p.m. Pacific Time. The playback can be accessed by calling (855) 859-2056 or (404) 537-3406 for international callers, with passcode "2148429" for both playback numbers.

About JAKKS Pacific, Inc.

JAKKS Pacific, Inc. is a leading designer, manufacturer and marketer of toys and consumer products sold throughout the world, with its headquarters in Santa Monica, California. JAKKS Pacific's popular proprietary brands include: Perfectly Cute™, ReDo™ Skateboard Co, X-Power™, Disguise® Moose Mountain®, Maui®, Fly Wheels™, Kitten Catfe™, Kids Only!®; a wide range of entertainment-inspired products featuring premier licensed properties; and C'est Moi™, a new generation of clean beauty. Through JAKKS Cares, the company's commitment to philanthropy, JAKKS is helping to make a positive impact on the lives of children. Visit us at www.jakks.com and follow us on Instagram (@jakkstoys), Twitter (@jakkstoys) and Facebook (JAKKS Pacific).

Forward Looking Statements

This press release may contain "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates and projections about JAKKS Pacific's business based partly on assumptions made by its management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such statements due to numerous factors, including, but not limited to, those described above, changes in demand for JAKKS Pacific's products, product mix, the timing of customer orders and deliveries, the impact of competitive products and pricing, or that any future transactions will result in future growth or success of JAKKS. The "forward-looking statements" contained herein speak only as of the date on which they are made, and JAKKS undertakes no obligation to update any of them to reflect events or circumstances after the date of this release.

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