



KEY M&A TAKEAWAYS

- ▶ Despite short-term concerns spawning from Toys "R" Us' September bankruptcy and its more recent liquidation plan, long-term outlook remains positive for the Juvenile Products industry on the heels of continued revenue growth. According to the US Census Bureau, global retail sales for hobby, toy, and games stores exceeded \$19.2 billion in 2017, up from \$18.8 billion in 2016.¹ Following an impending disruption and redistribution of sales within the toy market, the Juvenile Products industry is well positioned to maintain its recent growth trajectory.
- ▶ From a merger and acquisition (M&A) standpoint, activity has stalled slightly as industry operators await clarity regarding retail stability. However, there remains significant opportunity for consolidation due to the fragmented nature of the industry. According to The Toy Association, 95.2% of toy manufacturers, distributors, and wholesalers are small businesses.² Capstone Headwaters expects for large industry operators to turn to the M&A marketplace as a source of long-term growth and a means of diversifying product offerings.

NOTABLE TRANSACTION

- ▶ **Spin Master acquires GUND (March 2018)** – Global children's entertainment company Spin Master, has acquired GUND, the oldest and one of the leading plush toy manufacturers in the world, for \$79.1 million. Founded in 1898 and headquartered in Edison, New Jersey, GUND is recognized by the American Brand Council as one of the most trusted toy brands in the nation.

The acquisition of GUND enables Spin Master to expand into the infant toy and specialty gift categories by way of an already well established platform. Ben Gadbois, Global President and COO of Spin Master, commented in the press release, "GUND further diversifies our product line and opens up significant opportunities for broader distribution. We will also be able to drive international growth leveraging our well-established global infrastructure."³

In recent years, Spin Master has been the most active strategic acquirer in the space and has demonstrated a commitment to pursuing inorganic growth opportunities. Since its initial public offering in 2015, the company has completed nine transactions, including the acquisition of Perplexus (\$9.0 million) in 2017, and Swimways (\$93.5 million), Ohio Art and Etch A Sketch (\$8.1 million), and Editrice Giochi (\$5.0 million), all in 2016.

TOYS "R" US LIQUIDATION

- ▶ Following an extremely tumultuous year in 2017, Toys "R" Us has announced plans to liquidate the inventory in all 735 of its US stores and pursue a reorganization and sale of international operations in Canada, Asia, and Central Europe. In the press release, Dave Brandon, Chairman and CEO of Toys "R" Us, explained, "we no longer have the financial support to continue the Company's US operations. We are therefore implementing an orderly process to shutter our US operations and will pursue going concern sales or reorganizations of certain of our international businesses, while our other international businesses consider their options."⁴ As noted in Capstone Headwaters' Q1 report, Toys "R" Us has been handicapped by unsustainable levels of debt for the better part of a decade, which forced the company to file for bankruptcy in September 2017.

Large toy manufacturers, such as Mattel, Hasbro, and Spin Master, stand to be among those most significantly impacted by the liquidation. When Toys "R" Us filed for bankruptcy, it indicated that it owed Mattel \$135.6 million, Hasbro \$59.1 million, and Spin Master \$32.8 million.⁵ Despite this, and the resulting poor performance in the public market, industry operators remain positive as Walmart, Target, Amazon are all well positioned to grab a share of Toys "R" Us' sales and stabilize the retail market.

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Description	EV
03/18	Geoworld	Basic Fun!	Offers excavation and discovery toys.	-
03/18	GUND	Spin Master	Manufactures soft and huggable plush toys.	\$79.1
02/18	Ju-Ju-Be	Bregal Partners	Offers diaper bags and backpacks.	-
02/18	K'NEX	Basic Fun!	Manufactures construction toys.	\$29.0
02/18	Bugaboo	Bain Capital	Develops stroller and mobility products.	-
01/18	Sokikom	JumpStart Games	Develops web-based game.	-
12/17	Snapdolls	Cortex Toys	Manufactures dolls and accessories.	-
12/17	Perplexus	Spin Master	Creates, designs, manufactures, and markets toys and games.	\$9.0

Sources: Capital IQ, Pitchbook, and Capstone Headwaters Research

SELECT CAPSTONE DEALS AND AWARDS

<p>has been acquired by</p>	<p>has been acquired by</p>	<p>has been acquired by</p>
<p>2017</p> <p>USA MID-MARKET INVESTMENT BANKING FIRM OF THE YEAR</p>	<p>2017</p> <p>MIDDLE MARKET INVESTMENT BANKING FIRM OF THE YEAR</p>	<p>2017</p> <p>US MIDDLE MARKET INVESTMENT BANK OF THE YEAR</p>



BUILT FOR THE MIDDLE MARKET



CITATIONS

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2. The Toy Association, "Economic Impact of the Toy Industry 2017 Summary Report," https://www.toyassociation.org/App_themes/toyasociation_resp/downloads/research/economicimpact/unitedstates.pdf, accessed April 3, 2018.
3. Spin Master, "Spin Master Announces Acquisition of GUND from Enesco," <http://www.spinmaster.com/news-releasesview.php?id=122750>, accessed April 3, 2018.
4. Toys "R" Us, "Toys 'R' Us to Wind Down U.S. Business," <https://www.toysrusinc.com/press/toysrus-to-wind-down-us-business>, accessed April 3, 2018.
5. Paul Ziobro and Lillian Rizzo, Wall Street Journal, "Toy Makers Stare at \$11 Billion Hole With Death of Toys 'R' Us," <https://www.wsj.com/articles/with-death-of-toys-r-us-toy-makers-brace-for-major-hit-1521116575>, accessed April 3, 2018.

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