



COMPANY UPDATE / COVERAGE DROPPED

Key Metrics

JAKK - NASDAQ (as of 10/26/17)	\$3.08
Price Target	N/A
52-Week Range	\$2.67 - \$7.45
Shares Outstanding (mil.) (basic)	22.8
Market Cap. (\$ mil.)	\$70
3-Mo. Average Daily Volume	201,030
Institutional Ownership	62%
Total Debt/Total Capital (9/17)	56%
ROE (TTM ended 9/17)	N/A
Book Value/Share (9/17)	\$5.44
Price/Book Value	0.6x
Annual Dividend & Yield	Nil Nil
EBITDA Margin (TTM Ended 9/17)	4.2%

EPS FY 12/31 (GAAP figures)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	(\$1.01)		(\$1.01)	A	
2Q	(\$0.27)		(\$0.77)	A	
3Q	\$0.82		(\$0.77)	A	
4Q	(\$0.47)				
Year	\$0.07				
P/E	44.0x				

Note: Quarterly EPS figures may not add to annual total due to impact of quarterly net losses, and the treatment of convertible securities and the related impact on share count.

Net Sales (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$96		\$95	A	
2Q	\$141		\$120	A	
3Q	\$303		\$262	A	
4Q	\$167				
Year	\$707				

Company Description: *JAKKS Pacific, Inc. is a designer and marketer of toys and consumer products, many of which are based on popular entertainment property licenses. Proprietary brands include JAKKS Pacific, Road Champs, Funnoodle, miWorld, Kids Only, Tollytots, Disguise, Maui, Moose Mountain, and TV Games. Additionally, the company is a joint venture partner in DreamPlay Toys, which focuses on digital initiatives and utilizes proprietary image recognition technology.*

JAKKS Pacific, Inc.

JAKK — NASDAQ — Not Rated

Review of 3Q Results; Dropping Coverage to Focus on Other Areas

Investment Highlights

- **JAKKS had a difficult 3Q, in our view.** Net sales for what is typically the biggest quarter of the year (reflecting holiday orders from retailers) declined 13% from the year ago period to \$262.4 million. Gross margin was 23.54%, down from 31.35% last year due mainly to increased royalty expense resulting from minimum guarantee shortfalls and inventory impairment charges. Excluding nonrecurring items, gross margin would have been 29.70%, with the decline from last year due to a higher proportion of closeout sales.
- **Adjusted EBITDA (earnings before interest, taxes, depreciation & amortization, excluding restricted stock compensation expense) fell 10% to \$38.6 million.** Including nonrecurring charges, the company reported a GAAP-based net loss of \$0.77 per share versus a profit of \$0.82 per share a year ago. The company had not given financial guidance for the quarter, but we expected more favorable numbers.
- **We believe JAKKS faces several challenges.** We feel the toy industry is fairly mature and hit driven. The recent bankruptcy of key retailer Toys R Us impacted recent results at JAKKS and poses some uncertainty going forward, in our view. At the company level, we feel JAKKS has a decent but relatively small product portfolio. Products based on Disney's *Frozen* license have been meaningful growth drivers in the past, but a full length sequel to the movie is not expected until 2019. From a financial perspective, two convertible notes with approaching maturities, one in 2018 and the other in 2020, pose some risk despite recent principal reductions.
- **We are discontinuing research coverage of JAKKS Pacific, Inc.** The stock no longer meets our preferred levels for stock price and market capitalization. In addition, recent net losses and a challenging industry environment add elements of concern, in our opinion. We choose to focus our attention on other areas.

Note Important Disclosures on Pages 3-4.
Note Analyst Certification on Page 3.

Exhibit 1**Income Statement Highlights** (figures in thousands except percentages and per share data)

	Three Months Ended			Nine Months Ended		
	09/30/17	09/30/16	% chg.	09/30/17	09/30/16	% chg.
Net Sales	\$262,413	\$302,791	(13.3%)	\$476,483	\$539,577	(11.7%)
Gross Profit	\$61,781	\$94,933	(34.9%)	\$125,521	\$170,916	(26.6%)
Adjusted EBITDA	\$38,647	\$42,788	(9.7%)	\$22,693	\$37,648	(39.7%)
Operating Income	(\$7,746)	\$34,413	N/A	(\$37,578)	\$19,497	N/A
Net Income attrib. to JAKKS	(\$17,614)	\$30,612	N/A	(\$52,672)	\$8,828	N/A
GAAP EPS, diluted	(\$0.77)	\$0.82	N/A	(\$2.53)	\$0.36	N/A
Share Count, basic	22,772	16,044	41.9%	20,848	16,561	25.9%
Share Count, diluted	22,772	39,504	(42.4%)	20,848	39,916	(47.8%)
As a % of Net Sales:			bp chg.			bp chg.
Gross Profit	23.54%	31.35%	(781)	26.34%	31.68%	(533)
Adjusted EBITDA	14.73%	14.13%	60	4.76%	6.98%	(221)
Operating Income	N/A	11.37%	N/A	N/A	3.61%	N/A
Net Income	N/A	10.11%	N/A	N/A	1.64%	N/A

Diluted EPS calculations in 2016 periods assume conversion of convertible note.

Source: JAKKS Pacific, Inc.

Note: December fiscal year

Additional comments on 3Q results. U.S. and Canada sales for 3Q were \$154.1 million compared to \$188.4 million in the year-ago period. Major contributors included Disney franchises such as *Frozen*, *Disney Princess*, and *Moana*. International sales were \$50.1 million compared to \$57.3 million a year ago, with essentially the same key contributors as North America. The Halloween products segment, reported separately from the aforementioned geographic breakdown, had sales of \$58.2 million compared to \$57.1 million a year ago.

Financial condition. The September 30, 2017 cash balance was \$45.4 million. Total debt, in the form of two convertible notes (a 4.25% issue due August 2018 and a 4.875% issue due June 2020), had a balance sheet value of \$155.2 million. Over the past year or so, the company has repurchased or exchanged a meaningful amount of the 2018 notes for JAKK common shares and cash. Management continues to focus on the August 2018 maturity, which could see some holders agreeing to a maturity extension to 2020. At quarter end, total debt represented approximately 56% of total capitalization. Shareholders' equity was \$123.8 million.

Terminating coverage. JAKK no longer meets our preferred levels for stock price and market capitalization. In addition, we believe a series of quarterly net losses and lower cash generation, coupled with what we consider a challenging industry environment, add elements of concern. Consequently, we feel the risk/reward profile has become less attractive and choose to shift our investment research resources to other areas. Prior to termination of coverage, JAKK was rated Neutral-4. Our former rating, suitability, target price, and estimates should not be relied upon going forward.

Additional information is available upon request.

Prices of other stocks mentioned: The Walt Disney Co. - DIS - \$98.56 - LT Buy

Analyst Certification

I, Jeffrey S. Thomison, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017



Note: Price targets accompanying Buy ratings reflect a one year time period while price targets accompanying Long-term Buy ratings reflect a two to three year period.

Other Disclosures

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