

BUSINESS DESCRIPTION

The following section describes the business conducted by the Boxine Group, which the Company will continue to pursue.

1. Overview

Our vision is to become the world's largest interactive audio platform for kids in the world. We offer a smart, connected audio player, the Toniebox. The audio content is stored in our Tonies cloud and downloaded and unlocked through our Tonie figurines, which allow not only for an offline usage but also offer our customers an extensive and constantly growing choice of over 300 exciting characters, triggering steady usage and repurchases, comparable to a razor-blade business model, and thereby building brand loyalty. After having focused on the DACH region in the first years following our start of operations in 2016, we have now expanded into the United Kingdom, Ireland, the United States and, most recently, France. As of June 30, 2021, more than 2.4 million Tonieboxes were activated and more than 25 million Tonies sold to customers (*source: Company information*).

We have created a new product category. Our products are positioned at the intersection of four large consumer markets, video gaming, traditional toys and games, connected audio and video streaming. All of these markets are large and, based on Company information, generally expected to grow strongly over the medium term. The video gaming market had a global size of €136 billion in 2020 and we expect this market to grow at a CAGR of 7% between 2020 and 2025. The traditional toys and games markets had a global trading volume of €70 billion in 2020 and we expect this market to grow at a 3% CAGR between 2020 and 2025. The market for connected audio had a global size of €16 billion in 2020 and is predicted to increase by a CAGR of 10% between 2020 and 2025. Finally, the market for video streaming had a global size of €52 billion in 2020. Between 2020 and 2025, we expect that this market will grow at a CAGR of 10%.

We have created an ecosystem tailored to the needs of young families by providing a playful, safe and screen-free audio experience. Our ecosystem centers around the Toniebox, a smart, connected audio player, which has been designed with the ambition of making it the first connected device to enter a child's room. Content is unlocked through Tonies figurines. We offer a constantly growing choice, currently including over 300 exciting characters, which are triggering steady usage and repurchases, thus strengthening brand loyalty. We secure content through licensing agreements with content owners. For license-free songs and stories, we also use in-house recordings, which helps us increase our margins.

We have outsourced the production of our Tonieboxes to a supplier in China, with a second supplier in Hungary expected to be added later in 2021, and we have outsourced the production of our Tonies figurines to three suppliers in Tunisia and China, with a fourth Chinese supplier currently being added. Our dense distribution network is characterized by an omni-channel, but online focused, approach, relying mainly on offline distribution channels, but also on large e-commerce marketplaces as well as our own website. We currently rely on four distribution centers, one located in Germany, one in the United States (and intend to open two additional distribution centers in the United States) and one in the United Kingdom and intend to add one distribution center in France. Our marketing strategy focuses primarily on brand building as well as efficient customer acquisition.

Since our start of operations in 2016, we have achieved significant size and scale. As of June 30, 2021, more than 2.4 million Tonieboxes had been activated. Approximately 80% of them are used at least once every month, which also includes those activated in 2016. Furthermore, 25 million Tonies have been sold since the start of our operations (*source: Company information*). In 2020, our revenue was €134.6 million and our EBIT loss was €17.8 million.

2. Our Strengths

2.1 We have created a new multi-billion Euro category in the intersection of the four huge consumer markets video gaming, connected audio, video streaming and the traditional toys and games market with its sub-market connected toys

We operate at the intersection of four large consumer markets, which are, based on Company information, generally expected to grow strongly over the medium term. The video gaming market had a global market size of €136 billion in 2020 and we expect this market to grow at a CAGR of 7% between 2020 and 2025. The traditional toys and games market, which we expect to grow at a 3% CAGR between 2020 and 2025, had a global market size of €70 billion in 2020, with the segment being the most relevant proxy for the

Tonies product category growing market of connected toys having a global market size of €7 billion in 2020 and being expected to grow at a CAGR of 16% to €16 billion between 2020 and 2025. The market for connected audio had a global market size of €16 billion in 2020 and is predicted to increase at a CAGR of 10% between 2020 and 2025. Finally, the market for video streaming had a global market size of €52 billion in 2020. Between 2020 and 2025, we expect this market to grow at a CAGR of 13%.

2.2 *As a pioneer with a category-defining offering we benefit from our differentiated positioning*

We see ourselves as a pioneer with a category-defining offering, a high brand loyalty (with net promoter scores (“NPS”, a metric to measure the likelihood that customers would recommend a product on an overall scale from +100 and -100) of 78 in Germany and Austria, 70 in the United Kingdom and 90 in the United States) and a differentiating value proposition by providing a playful, safe and screen-free audio experience with the largest interactive audio platform for kids in the world. By positioning our Toniebox as the first connected device to enter the child’s room, we benefit from a first mover advantage.

Our global partner network provides us with access to international blockbuster content such as from Disney or Warner Bros. as well as regional evergreens such as “Was ist Was”, “Asterix”, “Paddington Bear”, “The Grinch” and “Benjamin Blümchen”. Through our extensive audio library, we provide our customers in the DACH region with additional digital content for physical Tonie figurines by offering customers the option of downloading additional episodes for certain Tonie figurines. Moreover, it is our intention to broaden this offering to other regions as well. We also offer accessories, such as adjacent products and merchandising, providing us with additional opportunities to grow our business.

2.3 *We operate based on a tech-enabled, scalable, razor-blade business model*

We benefit from a business model that relies on our tech backbone and seeks to guarantee razor-blade economics, *i.e.*, selling one good at a comparatively low price to enable sales of a complementary good. Our business is based on our proprietary ecosystem with the Toniebox as its entry point. As our Toniebox is used in combination with our Tonie figurines, which serve as both keys to the audio content as well as toys for the children, the purchase of one Toniebox usually triggers follow-on purchases of multiple Tonie figurines, with our average customer buying about 20 Tonies within a period of 4.5 years (*source: Company information*).

Additional sales are generated through our extensive audio library for digital content. Based on our tech backbone and external sourcing, where we keep adding suppliers as necessary, our business is also highly scalable, which has enabled our rapid growth with more than 25 million sold Tonies since the start of our operations and our geographic expansion.

We cover the full value chain, from hardware to content production to distribution. Our growth is supported by our data-driven approach, which allows us to unlock the power of a content-driven flywheel, where more content leads to more data, which in turn results in more relevant content.

2.4 *We have created a beloved direct-to-customer brand with a fast-growing and highly loyal fanbase*

Since the start of our operations in 2016, our direct-to-customer brand has developed a rapidly growing and highly loyal fanbase. Our truly excited customers are the heart of our active fanbase, as evidenced by exceptionally high NPS, such as 90 in the United States, 78 in Germany and Austria and 70 in the United Kingdom. In the DACH region alone, we have more than 360,000 highly vocal followers on our social media channels as of September 30, 2021. Based on the approach that we have developed in the DACH region and refined as we scaled our operations in the United Kingdom and Ireland, we believe that we are well positioned to quickly and efficiently enter additional markets. For example, our launch in the United States has been even more successful than the one in Germany. In just three months, Tonieboxes have been activated in all 50 states of the United States (*source: Company information*).

2.5 *Track-record of outstanding growth and proven profitability backed by an active and sticky customer base and attractive unit economics*

Our revenue increased at a CAGR of 50% between 2018 and 2020 and we expect a compound annual growth rate of 38% for the coming years until 2025. In addition, our revenue increased to €134.6 million in 2020 in just 5 years from our start of operations and with only €10 million of equity funding since launch in 2016.

As of June 30, 2021, already over 2.4 million Tonieboxes had been activated and 25 million Tonies had been sold. Approximately 80% of the Tonieboxes are active at least once every month. We expect our growth to continue as our average customer buys 20 Tonies within a period of 4.5 years (*source: Company information*).

In light of this outstanding track-record, we believe that our strong unit economics and margin improvement potential will allow us to target a contribution margin of 40% for the group and 47% in the DACH region and an adjusted EBITDA margin of 16% for the group and 35% in the DACH region over the medium term.

3. Our Strategy

We intend to capture multi-dimensional growth opportunities by increasing our penetration in the DACH region, expanding internationally and expanding our product and platform.

3.1 *Leverage strong domestic DACH market and capture full potential*

The DACH region, where we started our operations in 2016, is our most mature market. We believe that this market shows further growth potential, where we seek to benefit from content-driven structural growth. It is our target to increase our revenue within the DACH region from €126.0 million in 2020 to €172.9 million in 2025, driven by an increase in our market penetration from 35% in 2020 to 52% in 2025, translating into an increase in the installed base from 1.9 million Tonieboxes in 2020 to 2.8 million Tonieboxes in 2025. In this regard, our estimates lie below the estimates that other category defining products have reached in their markets.

3.2 *Extend our offering internationally*

We have a clear internationalization roadmap in place with defined building blocks for sustainable growth as part of our strategic roadmap. We have had a full local team on the ground since 2016 in Germany, Switzerland and Austria, after initial tests in 2018, a full team operates since 2019 on the ground in the United Kingdom and Ireland and since 2020 in the United States. As of September 2021, after a trial period, a full local team operates on the ground in France. By 2023, we intend to install local teams also in China. We also seek to enter other markets in Europe, Asia and Latin America, based on a primarily light-touch model (direct-to-customer first).

In the United States, we have built significant momentum, as evidenced by an NPS of 90 and an average of 6.5 Tonies sold per Toniebox within 9 months from the purchase of a Toniebox, which is slightly higher versus the like-for-like first cohorts in DACH (*source: Company information*). We intend to further engage and convert our target group through digital presence, partnerships and a strong go-to-market approach. We target to lever these measures to increase our revenue in the United States from €3 million in 2020 to €295 million in 2025.

Furthermore, we believe that China shows strong potential to become the next Tonies success story and intend to tap into this huge market.

3.3 *Product and platform expansion*

Improving our platform and product offering to satisfy and grow our fanbase and to improve our profitability is a key element of our strategic roadmap. We constantly expand our (own) content portfolio and also improving our existing products (*i.e.*, Toniebox and Tonies). This also involves further capitalizing on the digital product opportunity. Besides our traditional products, we are looking into expanding into accessories and merchandise, thereby making use of cross-selling advantages. In the future, we will also look into adding new content aimed at new target groups. In January 2021, we set up our innovation unit “Tonielab” which will drive our product innovation forward. In addition to that, we are experimenting with alternative materials for our Tonie figurines, such as wood, which may be helpful when expanding into new target groups.

3.4 *Further increase profitability of our business*

We believe that our scalable business model will drive future profitability. We see strong margin improvement potential, the effects of which are partially already locked in. We believe that we will be able to reduce our cost of goods sold by 17% through larger production volumes. Savings of 6% from past production increases confirm this strategy. By producing more of our own license-free music and stories in the future, we can also significantly reduce licensing costs. Therefore we aim for an adjusted EBITDA margin of 35% in the DACH region in the medium term in order to lead us to profitability.

4. Our Geographic Footprint

In 2019, we generated 98% of our net revenue in the DACH region, with our then newly-launched operations in the United Kingdom and Ireland. In 2020, we launched our operations in the United States. Most recently, we also have entered the French market. Our target is to expand our geographic footprint even further, including China.

5. Our Operations

5.1 Our Ecosystem

We see ourselves as pioneers of connected, technology-enabled audio systems for kids and as a provider of premium, curated audio content. Our ecosystem is tailored to the needs of young families by providing a playful, safe and screen-free audio experience.

5.1.1 The Toniebox



Our Toniebox is a smart, connected audioplayer, using our patented hardware. The Toniebox has been designed with a view to allow intuitive use by even children as young as three years of age. Its artificial leather provides shock protection and comes in a number of colors that are liked by children. It can be turned on by pressing one of the two ears, which also serve to change the volume. At the top is a platform with an integrated magnet where our Tonie figurines can be placed. The Toniebox includes a chargeable battery, which provides for up to seven hours of playtime, and can easily be charged by using our charging device, which can be connected to the bottom of the box. Furthermore, each Toniebox has an integrated memory with a size of about eight gigabyte, providing enough storage space for hundreds of hours' worth of audio content. A W-LAN connection allows for downloading of content from our cloud to the box.

5.1.2 The Tonies



The Tonies are figurines that can be placed at the top of the Toniebox. They contain a chip with a code, serving as a key to unlock content. When placed on top of a Toniebox for the first time, the relevant content will be downloaded from our cloud and locally stored at the Toniebox (requires internet connection). The Toniebox will play the content when the Tonie is placed on its top; it stops playing when the Tonie is removed.

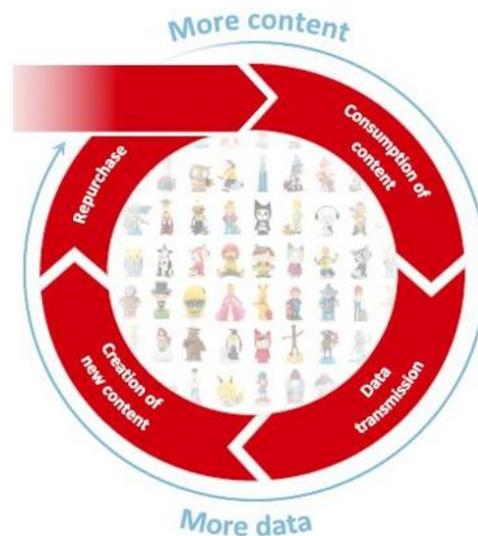
We have strong licensor relationships with numerous content providers, allowing us to offer users with access to international blockbuster content as well as regional evergreens. Overall, we offer an extensive and constantly growing choice of currently over 300 exciting characters (with premium content), triggering steady usage and repurchases. In addition, we offer creative Tonies that allow children or their parents to record custom content. Furthermore, additional audio content can be purchased through our audio library.

We also enable other products to function like Tonies, such as Playmobil characters or Steiff stuffed animals, by inserting a Tonies chip, which allows them to operate on our platform and unlock the respective content. In addition, we offer Toniebox-themed accessories, such as headphones, shelves, cases for the Tonies and backpacks in the shape of popular figurines.

5.1.3 Data

Thanks to our data-driven approach, we understand our users. We know what they listen, where and when, how often and for how long they listen to content and how intensely they engage with the platform. Moreover, we know which content is downloaded and how popular the relevant content is.

These insights allow us to tailor our offering to the needs and preferences of our users and to stay on top of relevant developments and to unlock the value of a powerful flywheel.



5.2 Sourcing

5.2.1 Hardware

We have outsourced the production of our Tonieboxes to a single supplier in China, with a second supplier in Hungary expected to be added later in 2021. Our Tonies figurines are sourced from three suppliers in Tunisia and China, with a fourth Chinese supplier currently being added. For a few other components, such as the production of the artificial leather for the Toniebox, assembly and packaging of the Toniebox and production of the magnets and NFC chips for the Tonies, we rely on a single sourcing strategy.

5.2.2 Content

We either enter into content licensing agreements or produce the content ourselves. Some content is licensed from different licensors, including Disney, Universal, Marvel, Warner Bros., DMG and Pixar. Our proprietary content production is managed by our content unit based in Hamburg, which allows us to lower the cost for content that is not copyright protected.

Our highly curated portfolio comprises various key categories

- Entertainment
 - Our entertainment category showcases many of the kids heroes that are well-known from movies or TV series, such as Peppa Pig or Paw Patrol. As of December 2020, over 12 million Tonies of this category have been sold.
- Music & Movement
 - Our Music & Movement Tonies focus on traditional children’s songs and content from cooperation with artists. As of December 2020, over three million Tonies of this category have been sold.
- Education
 - The education category within our Tonies collection includes non-fiction and broader learning content, such as non-fiction content about dinosaurs. As of December 2020, over 400,000 Tonies of this category have been sold.
- Tales & Classics
 - Our tales & classics category focuses on traditional stories and fairy tales, such as Pinocchio or Little Red Riding Hood. As of December 2020, over 500,000 Tonies of this category have been sold.
- Relaxation
 - This category includes compilations of nap time sounds and stories to help children relax and sleep. As of December 2020, over 500,000 Tonies of this category have been sold.
- Digital Stars
 - Our digital stars category, which has just been launched, includes new “hype” franchises and iconic contemporary characters.
- Iconic Books
 - Iconic books include local bestsellers and international classics, such as Pippi Longstocking. As of December 2020, over two million Tonies of this category have been sold.
- Creative Tonies
 - Creative Tonies can record up to 90 minutes of custom content. As of December 2020, over two million Creative Tonies have been sold.

5.3 Sales

We have a dense distribution network with an omni-channel, but online focused, approach that varies depending on local market structure. In DACH for example, we mainly rely on offline distribution channels, such as book stores or consumer electronics retailers. In addition we also use e-commerce marketplaces, such as amazon. Furthermore, we operate our own e-commerce website, where we sell Tonieboxes, Tonies and accessories directly to customers, putting us directly in contact with our customers and making us independent from retail chains.

5.4 Distribution

Next to our online services, we currently rely on four distribution centers, one located in Germany, one in the United States and one in the United Kingdom and intend to add one distribution center in France. For our direct-to-customer sales, we are partnering with well-known service providers for shipping our products.

5.5 Marketing

Our marketing relies primarily on a brand building strategy. By presenting our Tonieboxes and Tonies as category-defining products, we have created our own distinctive identity on the market, which provides us with a high recognition value and creates differentiation from similar products on the market. We regard the maintenance of our strong brand identity as crucial for our customer acquisition and for sustaining and driving our revenue and profit growth.

6. Intellectual Property

6.1 Trademarks

As of the date of this Prospectus, we have registered, or filed for the registration of, a number of trademarks, including our most important brand “Tonies”, “Tonie”, “Boxine” and “Toniebox”. We constantly monitor the market in order to maintain and protect these key assets, including by pursuing any infringements by third parties.

6.2 Patents

As of the date of this Prospectus, we have registered, or filed for the registration of, a number of patents and utility models, namely the German Patent application 10 2011 056 420.9 as well as the patent families that contain the PCT-applications WO 2015/104222, WO 2017/129348, WO 2017/129349, WO 2021/023404.

6.3 Registered Designs

As of the date of this Prospectus, we have registered, or filed for the registration of, a number of design rights, including one for the general appearance of the Toniebox.

6.4 Domains

As of the date of this Prospectus, we are the legal or beneficial owners of various domains, including the following top-level domains that are essential to our business: tonies.com and tonies.de.

7. Insurance Coverage

We have taken out a number of group insurance policies that are customary in our industry (e.g., property and loss of earnings insurance, business liability insurance, including insurance for product liability, transport insurance and environmental liability insurance) and cover all entities of the Group. Our insurance policies contain market-standard exclusions and deductibles. We regularly review the adequacy of our insurance coverage and consider our insurance coverage market standard insurance coverage customary in our industry. There is, however, no guarantee that we will not suffer any losses for which no insurance coverage is available or that the losses will not exceed the amount of insurance coverage under existing insurance policies.

[We have also taken out a directors and officers (“D&O”) insurance policy that covers the current and future members of the Management Board and Supervisory Board as well as equivalent bodies of other entities of the Group, with a total coverage of up to €[10] million per year and various sub limits depending on the specific nature of claims. The D&O insurance provides for a deductible for all of the members of the Management Board in line with the AktG.]

8. Employees

As of the date of this Prospectus, we employ a total of [●] full time equivalent employees.

The following table provides a breakdown of our full time equivalent employees for the periods and dates presented:

	For the fiscal year ended December 31,		
	2020 ⁽¹⁾	2019 ⁽¹⁾	2018 ⁽¹⁾
Germany	149.8	98.1	57.0
United Kingdom	6.9	4.8	2.1
France	0.8	0	0
United States.....	9.4	0	0
Number of employees	166.9	102.9	59.1

(1) Shows the average number of employees during the respective period.

9. Real Property

Our headquarters are located at Grafenberger Allee 120, 40237 Düsseldorf, Germany.

As of the date of this Prospectus, the Company does not own any real property. The following table provides an overview of all real property currently leased by the Group:

Location	Approximate size of effective area (unaudited) (in sqm)	Primary use
	3,517	
Oststraße 119, 40210 Düsseldorf, Germany	(including extension areas)	Office/Warehouse
Königsallee 106, 40215 Düsseldorf, Germany	1126	Office
Baldungstraße 5, 73525 Schwäbisch Gmünd, Germany	640	Office/Warehouse
Am Wehrhahn 50, 40211 Düsseldorf, Germany	430	Office
Grafenberger Allee 120, 40237 Düsseldorf, Germany	277	Office
Lindenfirststraße 28, 73527 Schwäbisch Gmünd, Germany	160	Office
Suite 103, 3401 El Camino Real, Palo Alto, CA 94306, USA	130	Office
31 rue de Paradis-75009 Paris, France	127	Office
Friedrichstraße 53, 40217 Düsseldorf, Germany	111	Office
Hohenesch 23, 22765 Hamburg, Germany	50	Recording Studio
3000 El Camino Real, Building 4, Suite 200, Palo Alto, California, 94306, USA	46	Virtual Office
365-B Lake Avenue Santa Cruz, Santa Cruz, California, USA....	0	Virtual Office

10. Legal Proceedings

In the ordinary course of our business activities, we are regularly exposed to litigation, particularly in the areas of product warranty, guarantee claims, delivery and payment delays, competition law, intellectual property disputes, labor disputes and tax matters.

However, we are currently not involved in any legal dispute with a value exceeding €0.5 million and have not been involved in any such proceedings during the past twelve months, other than the potentially pending proceeding under “12.10.1 Potentially pending legal proceedings with GEMA” and the pending proceeding under “12.10.2 Legal proceedings with ZPÜ”. Other than these, we are not aware of any governmental, legal or arbitration proceedings (whether pending or threatened) which may have, or have had, a significant effect on our financial position or profitability during the past twelve months. We do not expect either proceeding to affect the ongoing production and exploitation of our Tonies.

10.1 Potentially pending legal proceedings with GEMA

We are currently in negotiations with the German Society for musical performing and mechanical reproduction rights (*Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte*; “GEMA”), which administers the vast majority of musical reproduction rights on the German market. We have not yet entered into a license agreement with GEMA due to differences of opinion as to which fees should apply. If our negotiations with GEMA fail, it may be necessary to call in the specialized arbitration board in order to obtain a proposal for the parameters according to which the use of music in the innovative product Tonies is to be remunerated adequately.

10.2 Legal proceedings with ZPÜ

Devices that allow users to store or copy individual content, such as our Tonieboxes, are subject to fees in certain jurisdictions, including in Germany. We are currently in discussions with some of the collecting societies and similar other organizations, in particular, for the German market, with the Central Organization for Private Recording Rights (*Zentralstelle für Private Überspielungsrechte*; “ZPÜ”), which most likely will result in us being required to pay a fee. In December 2020, the ZPÜ filed for an arbitration proceeding with the arbitration board of the German Patents and Trademarks Office (*Schiedsstelle beim Deutschen Patent- und Markenamt*), which is currently pending due to ongoing negotiations between ZPÜ and us about which fees shall apply to our Tonieboxes.