

# **TOMY Company Ltd.**

## **Fiscal Year 2014 1<sup>st</sup> Half (6 months) Results**

### **(April 1, 2014 – September 30, 2014)**

**Nov 14, 2014**  
**TSE Securities Code: 7867**

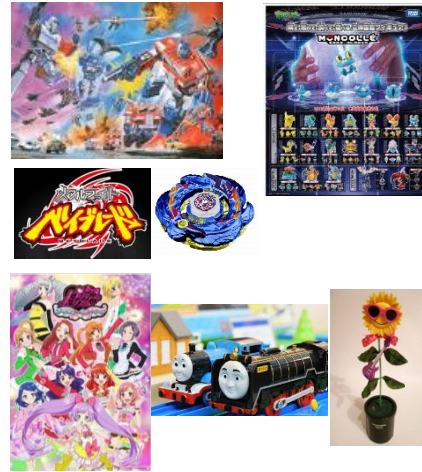
# “New Changes” in Our Industry

1st Generation

2nd Generation

3rd Generation

4th Generation



Craftsmanship

Mass development and production

marketing

New technology

During and after WWII

Economic growth

Growth of mass media

analog + digital

Metal and motors

Material revolution

Public information revolution

The personal revolution

Reliance on exports

Focus on exports

Development of toy marketing

Global development

Tinplate toys

Molding of plastic

Products with information added value

Age of brands

Age of materials

Age of the product

Age of information

**FY 2014 1<sup>st</sup> Half (6 months)**  
**Financial Highlights**  
**(April 1, 2014~September 30, 2014)**

Kazuhiro Kojima  
Board Director  
Chief Financial Officer  
TOMY Company, Ltd.

# FY2014 1<sup>st</sup> Half

## Consolidated Income statements



¥100million

	FY2014 1st Half			FY2013 1st Half	Difference
	Actual	Revised Forecast (10 Oct, 2014)	Original Forecast	Actual	
<b>Sales</b>	746	745	810	801	-55
<b>Cost of Sales</b>	487	—	—	528	-41
<b>Gross Profit</b>	258	—	—	272	-14
<b>Operating income</b>	15	15	20	26	-11
Operating Profit Margin	2.0%	2.0%	2.5%	3.3%	-1.3%
<b>EBITDA</b>	56	—	—	65	-9
<b>Ordinary Income</b>	11	11	18	28	-17
<b>Net Income</b>	-8	-9	6	6	-14

### ◆ Sales

Decrease was mainly due to the sale of subsidiaries TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd. (impact of ¥5.7 bn).

### ◆ Gross Profit

Gross profit declined, due mainly to a change in the product mix resulting from an increase in sales of TRANSFORMERS-related products exported outside Japan.

### ◆ Operating Income

There were strategic increases in advertising expenses and R&D expenses. (see page 5)

### ◆ Ordinary Income

There was a decrease in foreign exchange gains in non-operating income.

### ◆ Net Income

In August, class action settlement costs at a subsidiary and loss from fraud were recorded as extraordinary losses. (see page 7)

\* Amortization of goodwill and intangible assets associated with acquisition of TOMY International : FY2014 1<sup>st</sup> Half ¥1.1 bn, FY2013 1<sup>st</sup> Half ¥1.1 bn

\* EBITDA = operating income + depreciation + amortization of goodwill US\$ FX rate : FY2014 1<sup>st</sup> Half ¥103.04, FY2013 1<sup>st</sup> Half ¥98.85

# [Reference] FY2014 1<sup>st</sup> Half Income Statements Excluding TOYS UNION



¥100million

	FY2014 1st Half	FY2013 1st Half	Difference
<b>Sales</b>	<b>746</b>	<b>744</b>	<b>+2</b>
<b>Cost of Sales</b>	<b>487</b>	<b>475</b>	<b>+12</b>
<b>Gross Profit</b>	<b>258</b>	<b>268</b>	<b>-10</b>
<b>Operating income</b>	<b>15</b>	<b>25</b>	<b>-10</b>
Operating Profit Margin	2.0%	3.5%	-1.5%
<b>EBITDA</b>	<b>56</b>	<b>64</b>	<b>8</b>
<b>Ordinary Income</b>	<b>11</b>	<b>27</b>	<b>-16</b>
<b>Net Income</b>	<b>-8</b>	<b>0.1</b>	<b>-8</b>

\* All figures have been rounded down to the nearest ¥100million.

- ◆ Sales of existing businesses were firm.
- ◆ Sales of PRIPARA, FROZEN, WIXOSS and TRANSFORMERS products were strong.
- ◆ Sales of long-standing products were firm even amid a difficult consumption environment characterized by a consumption tax increase.
- ◆ In the Japanese market, the competitive environment for toys for elementary-school-age boys changed significantly.

# SG&A Breakdown FY2014 1<sup>st</sup> Half



¥100million

	FY2014 1st Half	FY2013 1st Half	Difference
<b>SG&amp;A (total)</b>	<b>243</b>	<b>246</b>	<b>-3</b>
Personnel expense	91	96	-5
Advertising expense	40	38	+2
R&D expenses	10	8	+2
Distribution expenses	32	34	-2
Amortization of goodwill and intangible assets associated with acquisition of TI	11	11	0

\* All figures have been rounded down to the nearest ¥100million.

## ◆ SG&A (total)

There were strategic increases in advertising expenses and R&D expenses.

# Overseas Net Sales FY2014 1<sup>st</sup> Half

¥100million

Area	FY2014 1st Half	FY2013 1st Half	Difference
Japan	414	470	-56
North America, Europe and Oceania	264	275	-11
Asia (excluding Japan)	52	42	+10
Others	14	13	+1
<b>Total</b>	<b>746</b>	<b>801</b>	<b>-55</b>
Ratio of overseas sales	44.4%	41.4%	+3.0%

\* All figures have been rounded down to the nearest ¥100million.

## ◆ Japan

Sales decreased due to removal of TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd. from the scope of consolidation (impact of ¥5.7 bn).

Sales of existing businesses were firm.

## ◆ North America, Europe and Oceania

Product shipments were weak reflecting the impact from major customers in Europe lowering their inventory levels.

## ◆ Asia (excluding Japan)

Exports of TRANSFORMERS to Asia grew as a result of the latest hit movie.

## Extraordinary Loss Breakdown FY2014 1<sup>st</sup> Half

### ■ Major year-on-year items changed

¥100million

	FY2014 1st Half	FY2013 1st Half	Difference
Extraordinary Loss	15	7	+8
Loss on sales of investment securities	0	5	-5
Loss from fraud	2	0	+2
Settlement cost	10	0	+10

\* All figures have been rounded down to the nearest ¥100million.

#### ◆ Loss from fraud

Loss from fraud associated with improper accounting practices at T-ENTAMEDIA

#### ◆ Settlement cost

Recorded due to a consolidated U.S. subsidiary class action settlement.

#### ◆ Loss on sales of investment securities

Recorded loss on sales of shares of Index Corporation and TOYS UNION Co., Ltd. in FY2013.



# FY2014 1<sup>st</sup> Half Consolidated Balance Sheets Breakdown



## Major year-on-year items changed

¥100million

account	FY2014 1st Half	FY2013 1st Half	Difference
<b>Inventories</b>	<b>224</b>	<b>243</b>	<b>-19</b>
<b>Japan</b>	<b>151</b>	<b>148</b>	<b>+3</b>
<b>Overseas</b>	<b>122</b>	<b>144</b>	<b>-22</b>
<b>Elimination of unrealized profits</b>	<b>-49</b>	<b>-49</b>	<b>0</b>

<b>Total Interest Bearing Debt</b>	<b>657</b>	<b>662</b>	<b>-5</b>
<b>Loans Payable</b>	<b>483</b>	<b>535</b>	<b>-52</b>
<b>Bonds</b>	<b>100</b>	<b>4</b>	<b>+96</b>
<b>Convertible Bonds</b>	<b>74</b>	<b>123</b>	<b>-49</b>

### ◆ Inventories

\* All figures have been rounded down to the nearest ¥100million.

Overseas subsidiary TOMY International \$-33MM (YoY) (¥-1.9 bn converted)

(FY2014 1<sup>st</sup> Half: \$107MM; FY2013 1<sup>st</sup> Half: \$140MM. US\$ FX rate: FY2014 1<sup>st</sup> Half: ¥109.45; FY2013 1<sup>st</sup> Half: ¥97.75)

### ◆ Interest Bearing Debt

Issued ¥10.0 bn in private placement bonds for CB redemption and operating capital at end of FY2013.

CB redemption of ¥4.9 bn in June.

A silhouette of a person pushing a large, heavy rock up a hill against a sunset sky. The person is on the left, leaning forward and pushing the rock. The rock is on the right, tilted upwards. The background shows a sunset with a bright orange and yellow glow on the horizon, transitioning to a blue sky with scattered white clouds. The overall scene is framed by a thin blue border.

# **Business Strategy Meeting for Analysts**

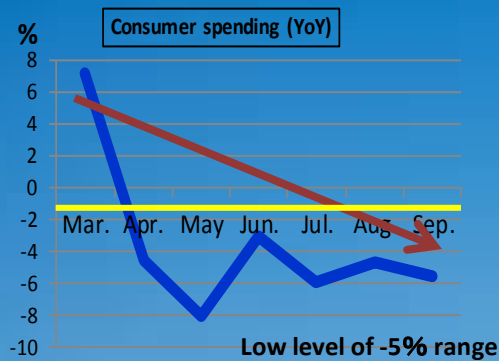
## **Progress Report of the Revolutions at TOMY**

**Representative Director & COO**

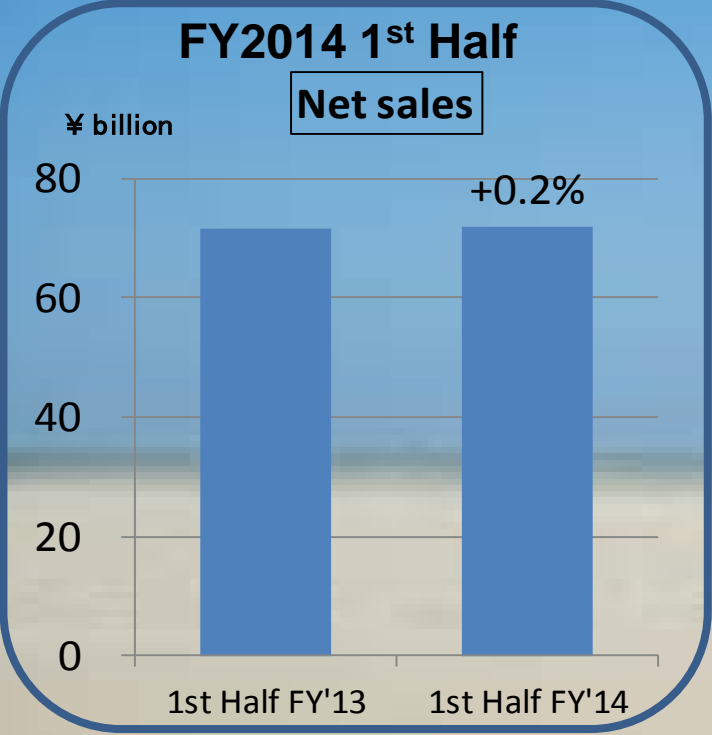
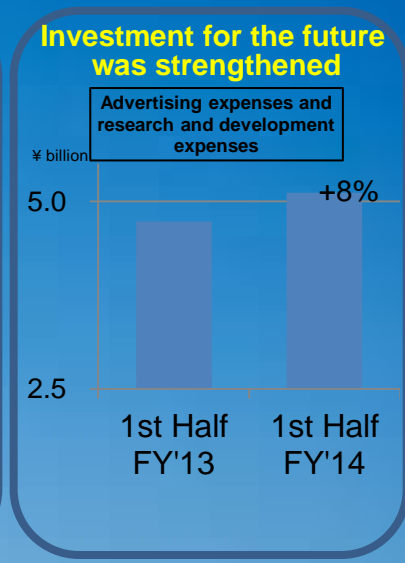
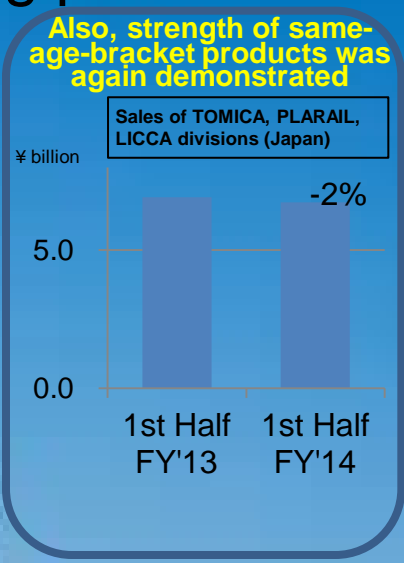
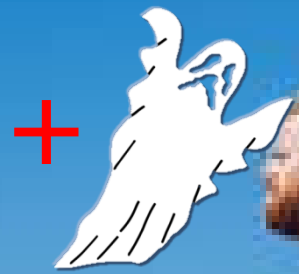
**H. G. MEIJ**

**November 14, 2014**

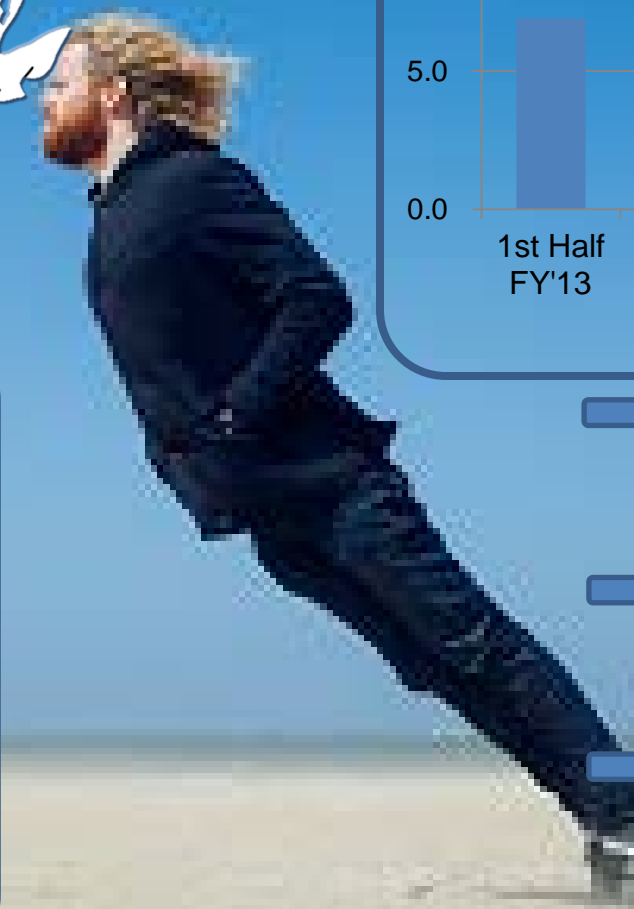
# Despite an adverse headwind, we prevented declines with strong products and brands



\* Source: Ministry of Internal Affairs and Communications of Japan - Family Income and Expenditure Survey



\* Net sales comparison excluding TOYS UNION Co., Ltd. and TATSUNOKO PRODUCTION Co., Ltd.



**PRIPARA**

600,000 registrations in 4 months operation.  
1 in every 3.5 girls aged 6-9 are registered.

**FROZEN**

Total sales volume of plush toy related products surpassed 1 million units.

**WIXOSS**

Sales surpassed 5 million packs, five times the company plan.

**TRANSFORMERS**

4th movie related product sales +5% compared with last movie

# Main revolution targets of FY2014

**TOMY's new direction**



**4th Generation**



**New Medium Term  
Management Plan**

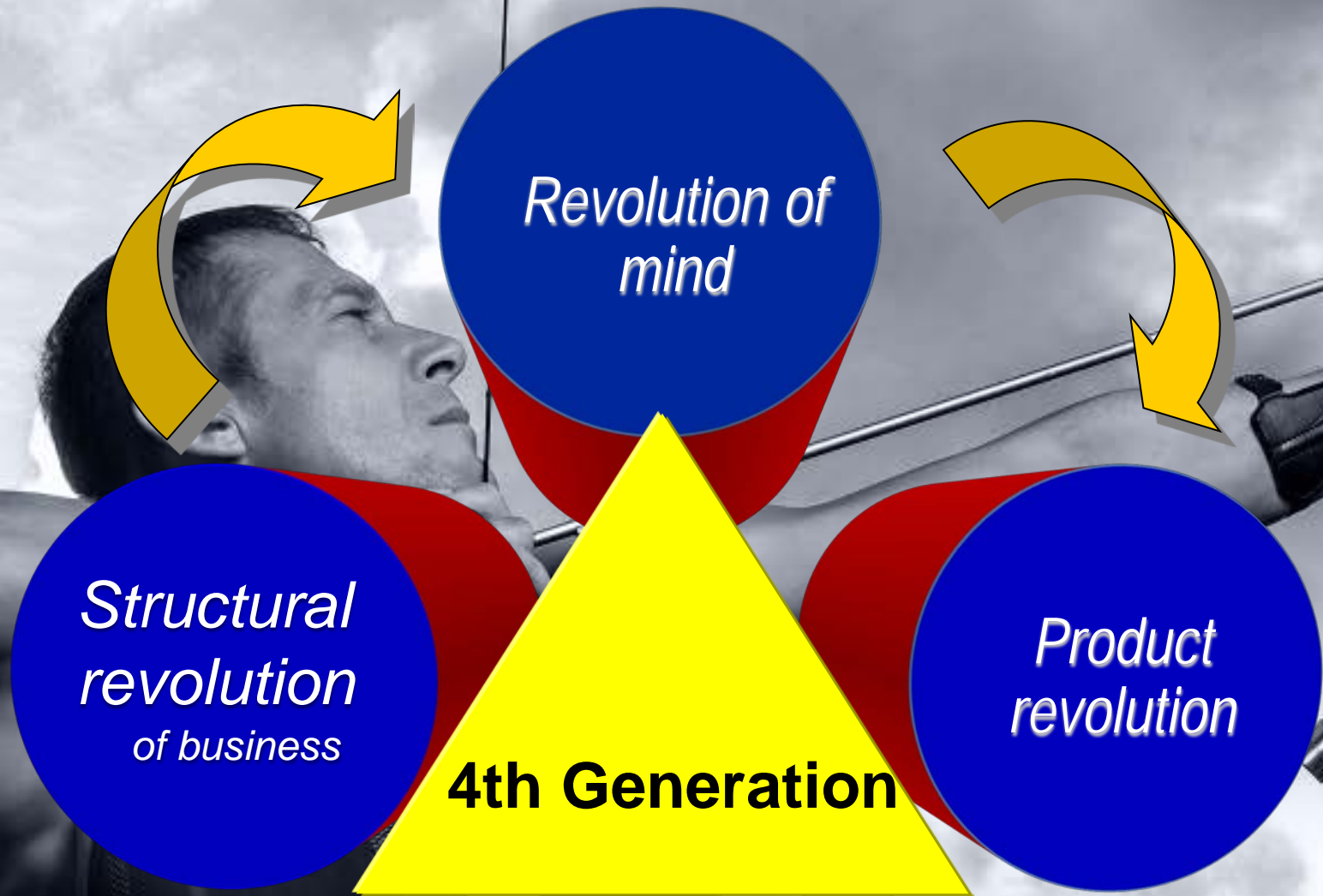
**Improving incentive and motivation of employees**

**Revolution in Japan (72 projects)**



**Revolution overseas (30 projects)**

# Essential Three Revolutions to Achieve the 4th Generation



*Revolution of mind*

- Although there is a crisis → Both toys and TOMY have big potential
- Utilize creativity → Take more risks
- Although Japan market is important → Actively expand the global business

*Product revolution*

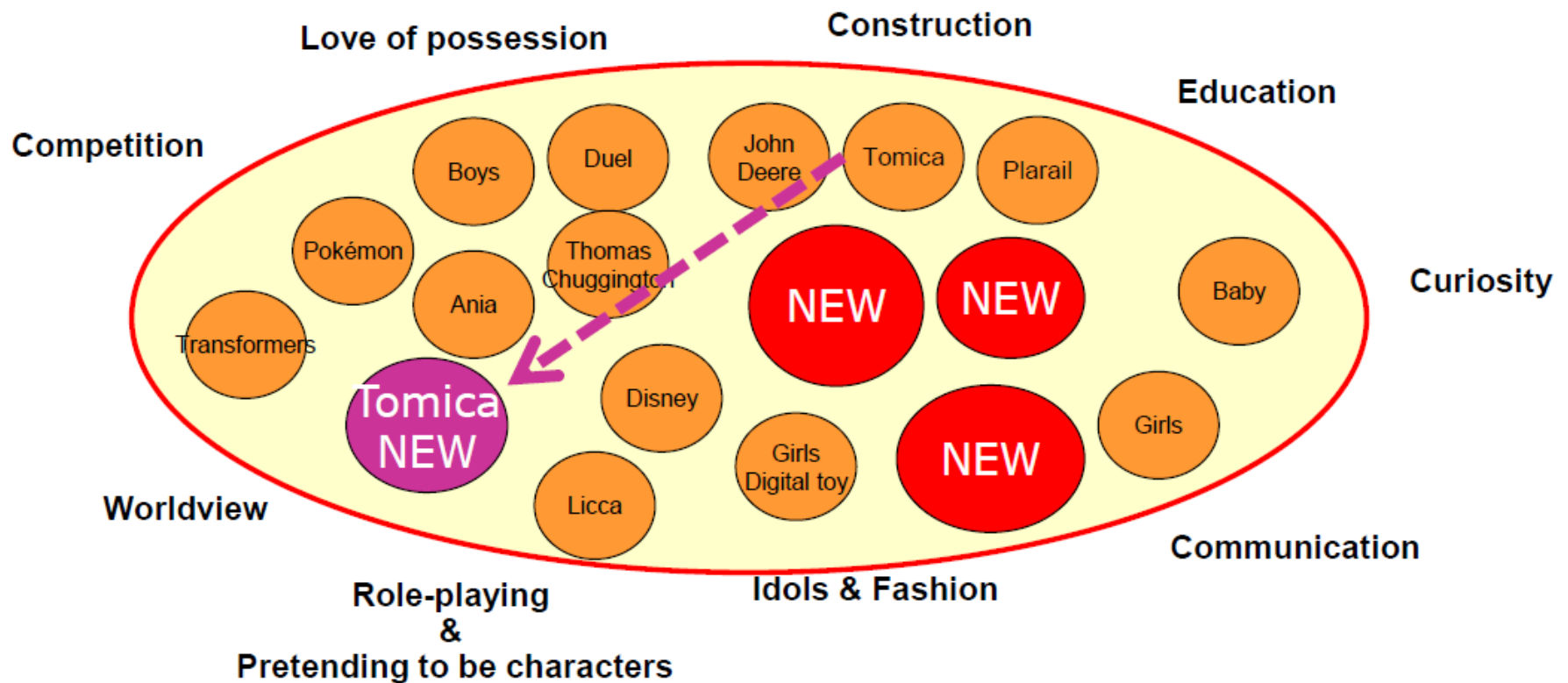
- Analog products → Toys 4.0 (with digital components)
- Products → Switch to brands
- Role of toys → Expand into whitespace

*Structural revolution*

- Integrate subsidiaries
- Appropriately reduce number of divisions/departments
- Rejuvenate



Chance to fill the  
"whitespace" not filled  
by current brands!




※Image of product portfolio centered on children's growth and toy's roles as key words



- **Announcement of New Medium Term Management Plan**
- **Execute Top 10 of 72 projects**
  - **Integration of subsidiaries**
  - **Remuneration system**
  - **POA (Point of Availability)**
  - **Innovation Funnel**
  - **Next generation marketing**
  - **Strengthening POP**
  - **P&L by brand/SKU**
  - **WEB sales**
  - **Other expenses**
  - **(Environment inside TOMY)**
- **Improve organization (1<sup>st</sup> wave of integration of functional subsidiaries; appropriately reduce number of functions / divisions/departments; rejuvenate)**
- **Acquire multiple Disney content**

- **Execution of overseas improvement projects**





## Improvement Projects

Made up of  
willing employees

Participation from  
other departments

**Japan = 72 projects**

**Select Top 10 → Create proposal → Present to Board → Do**

**Overseas = 30 projects**

**Select 10 → Create proposal → Present to Board → Do**

We deeply appreciate the employees who  
volunteered to participate on top of their  
regular work.

**78 volunteers!**

# Major results of Top 10 projects

**Unification of organization**

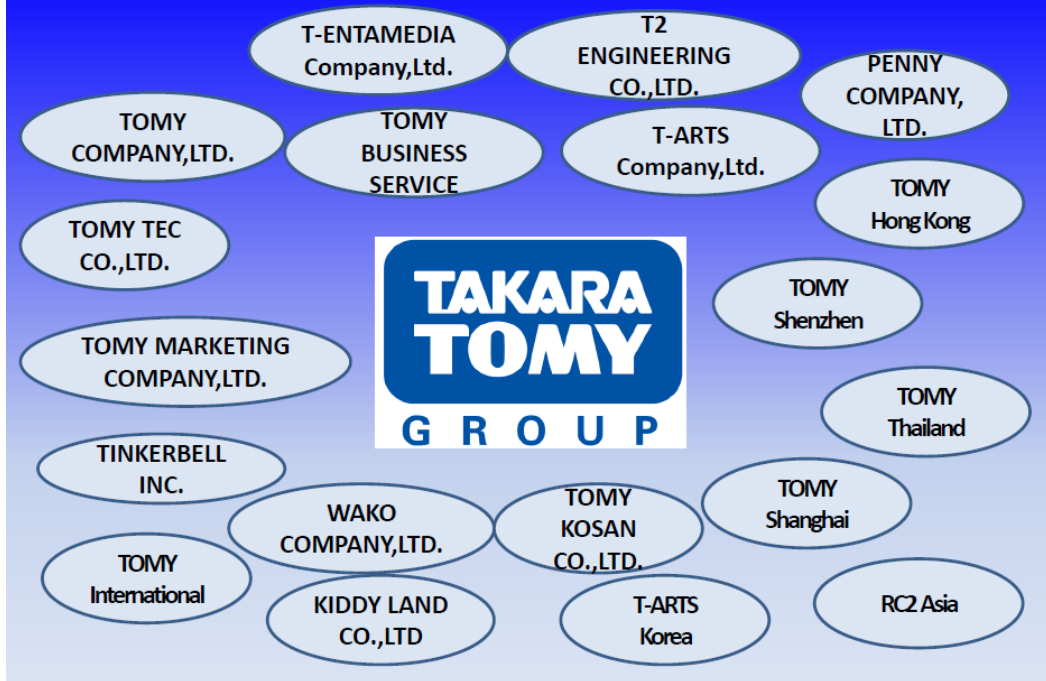
Japan/overseas 38 companies → ? companies

First step →

**TOMY BUSINESS SERVICE  
T2 ENGINEERING  
TOMY KOSAN**

} **Merger to the next step . . .**  
**Date: From November 2014**

## Stage 1 Integration of subsidiaries



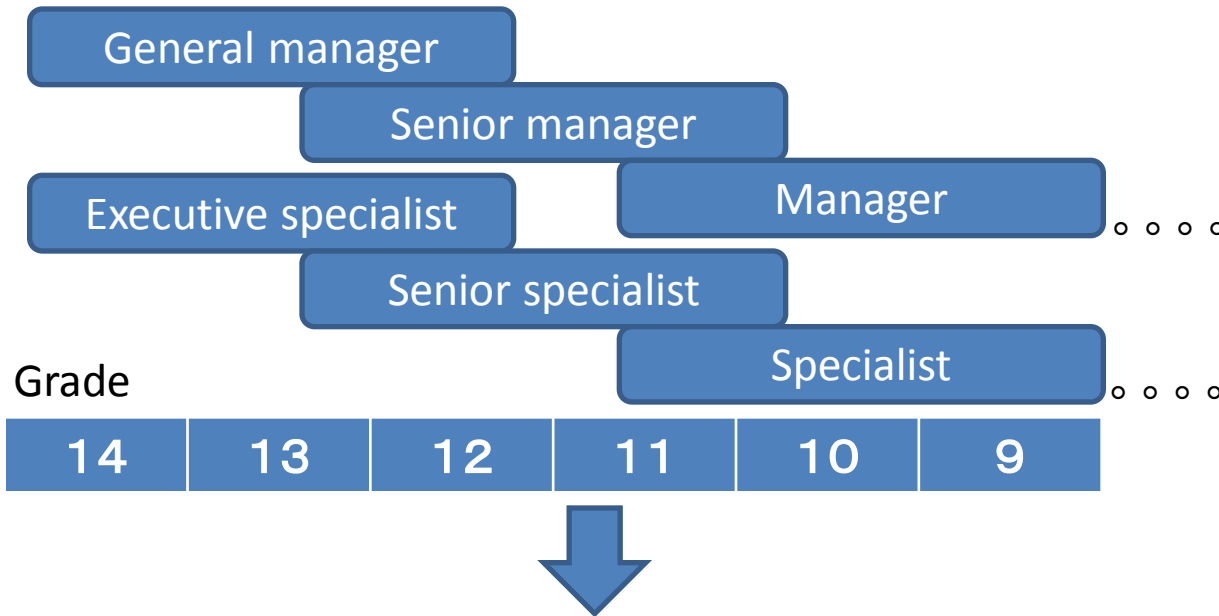
## Major results of Top 10 projects

Unification of organization

Remuneration system

- Remuneration basics:
- Role and work duties
  - Evaluation
  - Market value
  - Expected performance, impact, potential

Not “the person” → Consider introduction of grading by “role” and “responsibility”  
Grading: Scope of responsibility, scale, potential number of subordinates, etc.



Establishment of objective benchmarks by expert body

# Major results of Top 10 projects

Unification of organization

Remuneration system

**POA\***

\*POA: Point of Availability

Search for and utilize places where toys can be sold

B → B

B → C

Sell products held by TOMY

Create (or purchase) products not held by TOMY and sell them

Sell at POA different from that of existing customers

Create new POA to sell products

Set up new POA development teams

Planning

Execution team



# Major results of Top 10 projects

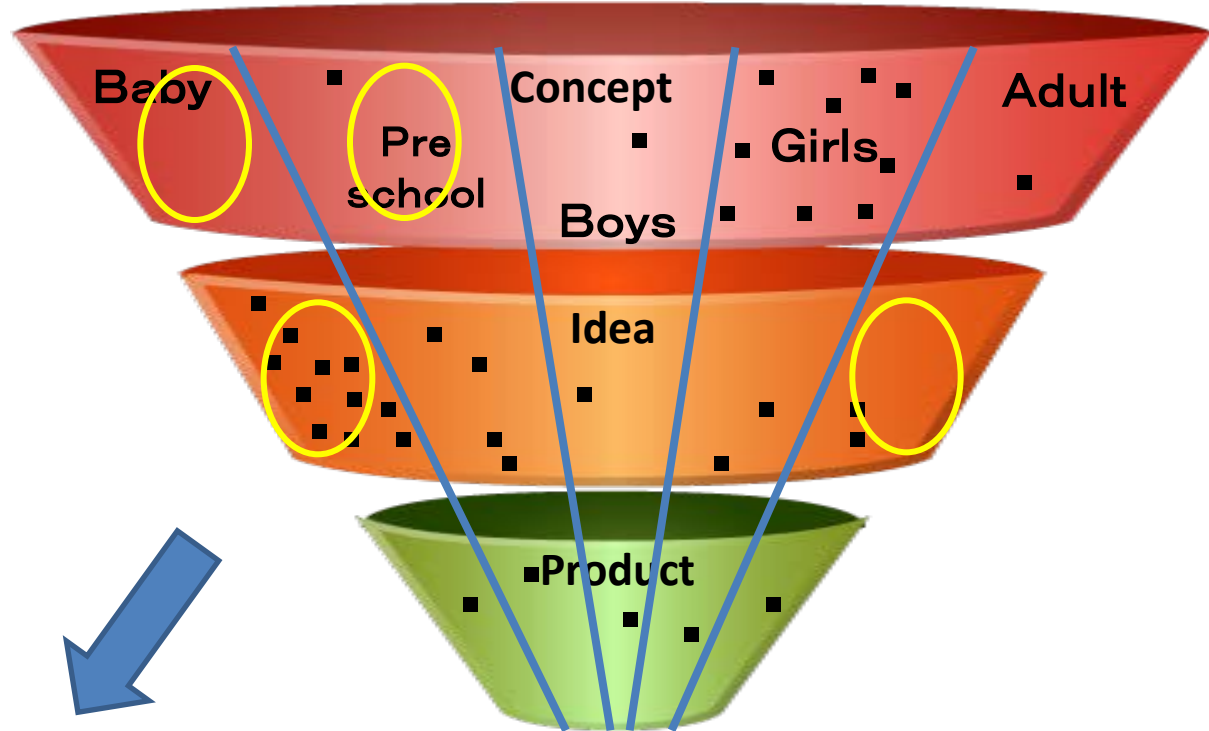
Are there sufficient products in planning to achieve the Medium Term Management Plan?

Unification of organization

Remuneration system

POA

**Innovation Funnel**



X Products X Products X Products X Products X Products  
Y Billion Y Billion Y Billion Y Billion Y Billion

## Collect new ideas

1. Network (Industry/academic collaboration)
2. Call for ideas from inside TOMY
3. Call for ideas from general public
4. Overseas toy manufacturers



## Major results of Top 10 projects

Unification of organization

Remuneration system

POA

Innovation Funnel

**Next generation marketing**

What is next generation marketing?

As the generation changes, the **media viewed and listened to** and the **content** viewed and listened to by customers change

SNS

Viral

Guerilla

Establish new “Next Generation Marketing” Group

Of the total staff of 12, **3** were selected by recruiting from inside TOMY



# Digital Presence

Twitter accounts	Number of followers(7/24)	Number of followers (11/9)	Number of increase
<b>[TOMY]</b>			
TOMY official account	3,455	4,752	1,297
Tomy mall	1,028	1,231	203
<b>[Brands]</b>			
TRANSFORMERS	8,962	11,625	2,663
INAZUMA ELEVEN	601	620	19
DUEL MASTERS	4,653	5,510	857
HAIKYU VOBACA	7,105	12,946	5,841
WIXOSS	11,526	15,963	4,437
KOEDARIZE	852	2,030	1,178
OMNIBOT	1,231	2,521	1,290
LICCA	1,917	9,000	7,083
ANIA		744	744
<b>Total</b>	<b>41,330</b>	<b>66,942</b>	<b>25,612</b>

## Tumblr

(Mixed media blogging service)

## Slideshare

(Presentation file sharing service)

## Path

(Private social network)

## Mobli

(Photo and video sharing service)

## Vine

(Short video clips)

**+62%**  
**in 4 months**

## Major results of Top 10 projects

Unification of organization

Remuneration system

POA

Innovation Funnel

Next generation marketing

**Strengthening POP**

# 70% of purchase decisions decided at the shelf

Product sold by ~~product~~ packaging

**Final push**

**76.3% of customers** look at in-store POP advertising. Less than 3% ignore it completely.

PLARAIL units	: 115.0%
TOMICA units	: 109.5%
Total test products	: 108.1%

**POP installations are effective!**





Major results of Top 10 projects

Unification of organization

Remuneration system

POA

Innovation Funnel

Next generation marketing

Strengthening POP

**P&L by brand/SKU**

**TOMICA = 1,026 products**



Which products hold 80% of profit share?



**267 products**

Which products hold 90% of profit share?



**365 products**



## Major results of Top 10 projects

Unification of organization

Remuneration system

POA

Innovation Funnel

Next generation marketing

Strengthening POP

P&L by brand/SKU

**WEB sales**

## Limited product comparison with competitor

FY 2013	Competitor	Official shopping site Tomy Mall
Annual sales	¥10,000 million	¥140 million
Limited product SKU	approx. 1,900 SKU	28 SKU
1 SKU/net sales	<b>approx. ¥5.20 million</b>	<b>¥5.00 million</b>

**BLYTHE 500 units (¥29,000/unit)**  
**TF EVANGELION 1,000 units**

**Sold out in 4 minutes**  
**Sold out in 30 minutes.**

**Launch expert team**

## Major results of Top 10 projects

Unification of organization

Remuneration system

POA

Innovation Funnel

Next generation marketing

Strengthening POP

P&L by brand/SKU

WEB sales

**Other expenses**

Environment inside TOMY

Other expenses = ¥14,800 million



Business trip costs

Business hospitality costs

Lease costs

Office expenses etc. . .

**Clarify the rules  
and keep costs down**

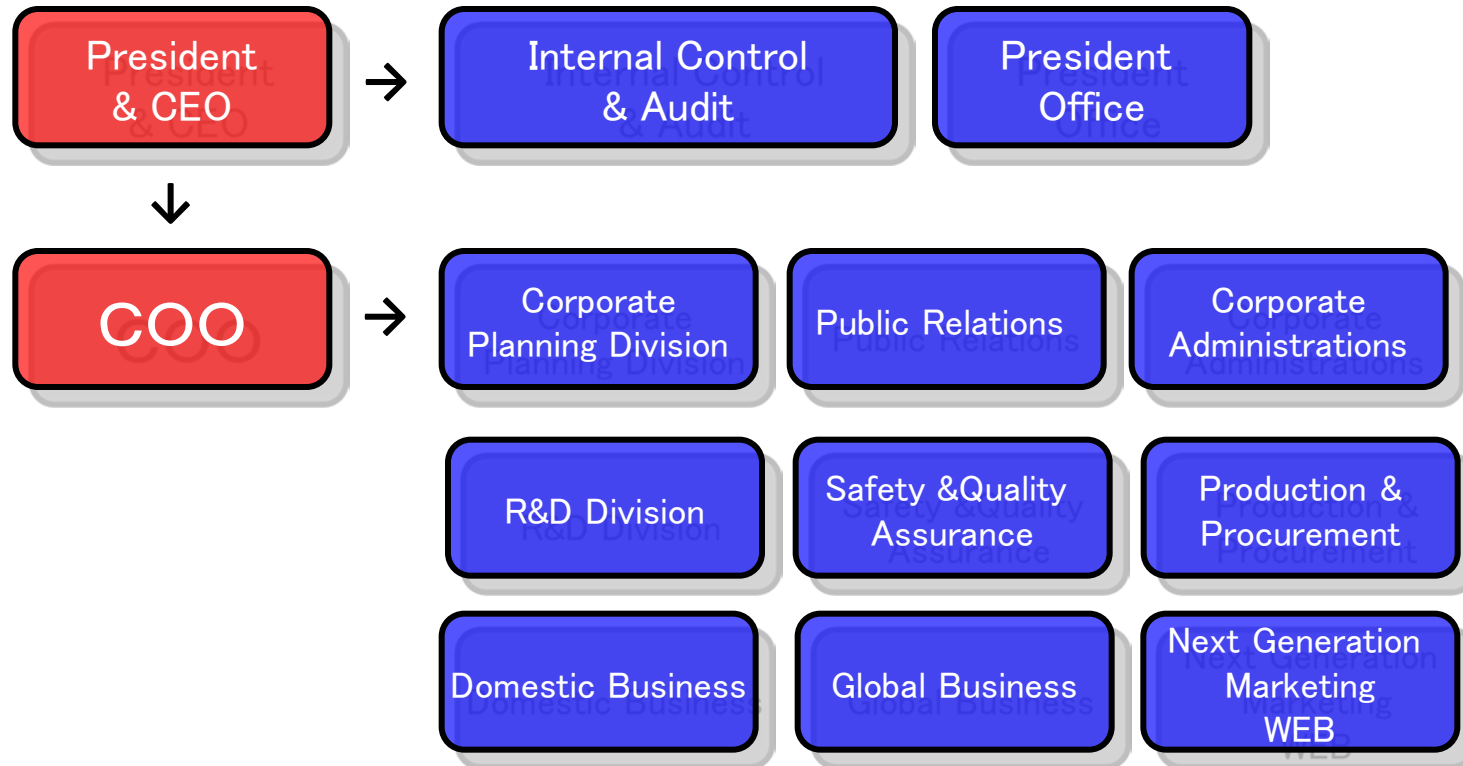


# Organizational Changes

**Flatter structure (9 “cells”)**  
**Suitable function/division/department**  
**Rejuvenation**

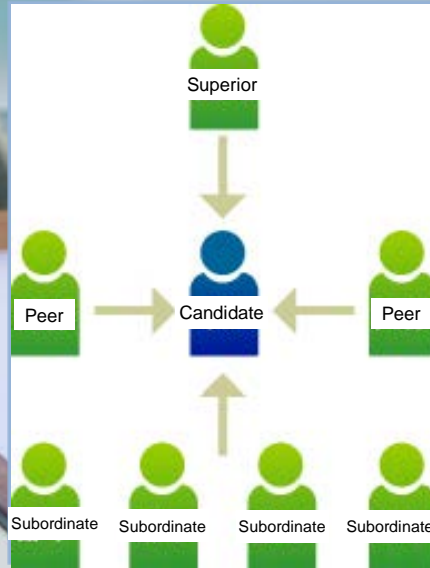
New  
organization

From October 1



# Selecting people for organizational change

Accurate  
employee  
evaluation



360° evaluation

5 level evaluation (5 = good, 1 = poor)

Compare with the results of 2,800 companies.

Aspirations of  
employees

Consider the aspirations of employees and reflect them if possible.



Improvements  
from now:

Now, changes area only at head office → Next time adoption at subsidiaries will be considered.  
Now, executives only → By April, application to manager positions and lower will be decided.

**New organization**

From October 1

# Organizational Changes

**Flatter structure (9 “cells”)  
Suitable function/division/department  
Rejuvenation**

	Headquarters	Divisions	Groups	Departments/ teams	Total
Current	3	26	33	78	140
New	3	19	27	68	117
Decrease	0	-7	-6	-10	-23
Decrease (%)	0%	-27%	-18%	-13%	-16%

- Newly added groups
  - 1) Internal Control & Audit Group
  - 2) Next-generation marketing
  - 3) New sales routes
  - 4) High targets (adults)



Use the **internal company recruitment system** to recruit (call for 34 positions and transfer for 13 positions)

- Compared with previous organization, new **average** age of executives = Approx. 5 years younger\*

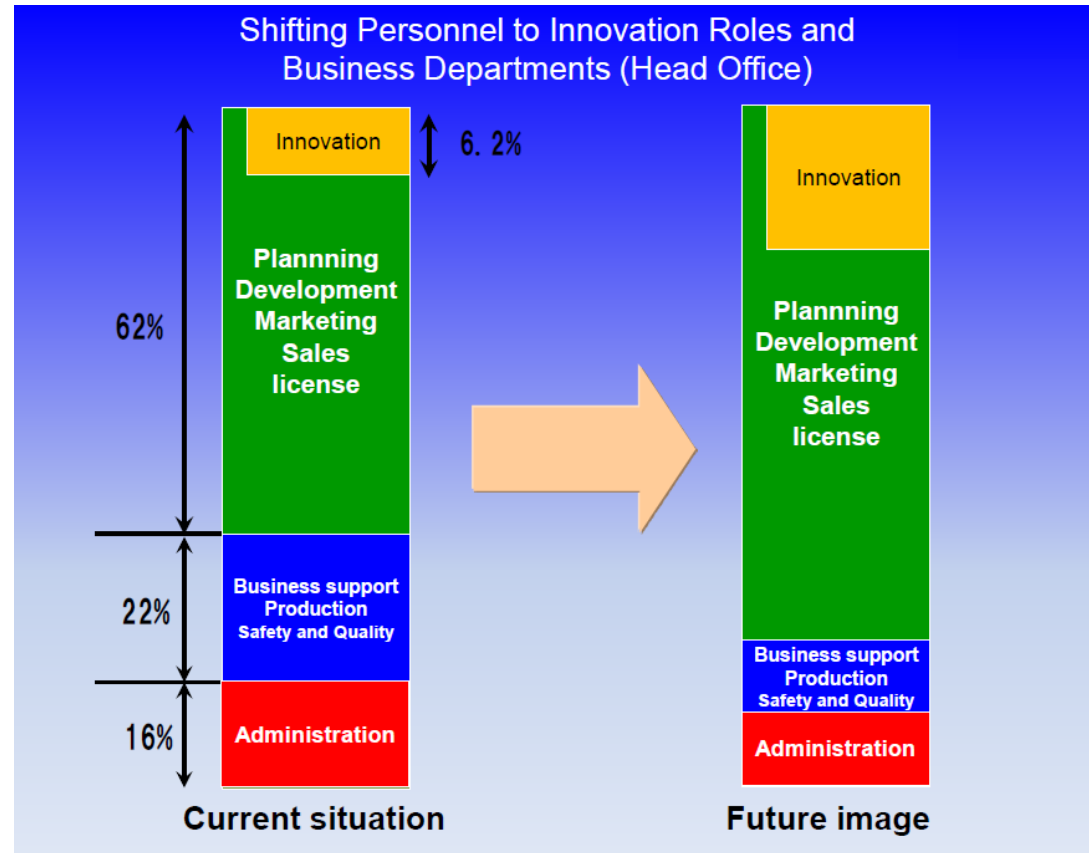
\* Executive officers or higher

# Organizational Changes

## Flatter structure (9 “cells”) Suitable function/division/department Rejuvenation

New organization

Investment in the business and development



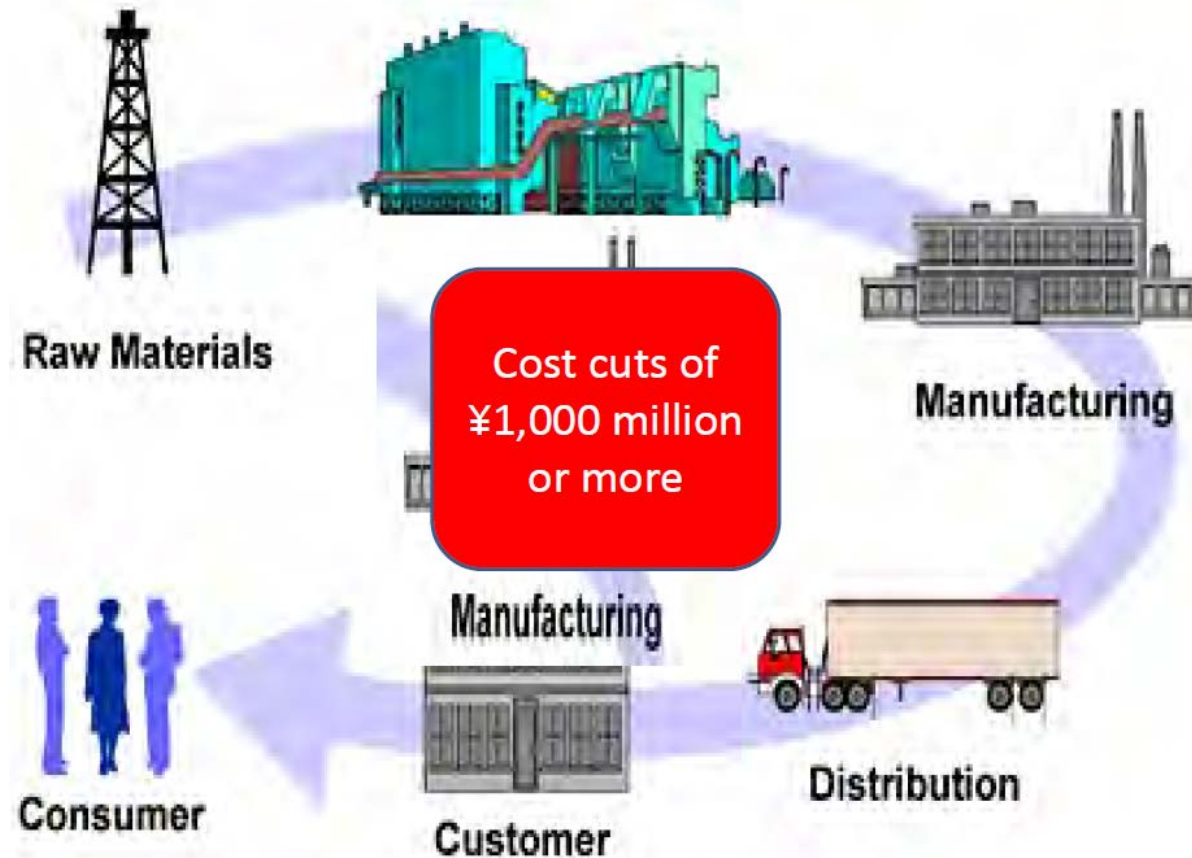
Strengthen the R&D Division to further promote ongoing projects and core technology  
(Increase of 19 staff members, roughly doubling the size)

# Organizational Changes

**Flatter structure (9 “cells”)**  
**Suitable function/division/department**  
**Rejuvenation**

New  
organization

Investment in the  
business and  
development



**Strengthen production systems to be more cost competitive and realize shorter delivery times**



# Obtain merchandising rights for 3 large franchises

Movie



Global  
June 2015

Movie




Global  
November 2015

TV series



North  
America  
+ ?  
2015

About 10 billion yen for 3 franchises combined

A silhouette of a construction worker wearing a hard hat and safety glasses, using a hammer on a wooden structure. The background is a bright sunset or sunrise with a warm orange and yellow glow. The worker is positioned on the right side of the frame, leaning over their work. The wooden structure consists of various beams and planks, some of which are being worked on. The overall scene conveys a sense of active construction and craftsmanship.

Continual improvement  
and further reorganization  
will be needed to  
successfully create  
the 4th generation



## In six months from now...

- Japan's Top 10 projects: Transferred to new organization → Run → Next
- (Overseas) Top 9 projects: Projects selected and teams established.
- Moved to the next stage of unification
- BPR of T2M, Headquarters, T-Arts (Increased productivity)
- Creation of measures to create original content
  - (Transparency = Funnel + 36-month calendar)
  - (Ideas = Methods for generating new ideas)
  - (Investment)
- Operate POA\* organizations

\*POA: Point of Availability



This report contains forward-looking statements, targets, plans and strategies for the future. However, these are based on current information and will not guarantee nor warrant any financial estimates or any figures. Therefore, actual results could differ from this report. This is translation on original text in Japanese.