

**Telephone Conference for the First Nine Months of the Fiscal Year Ending March 31,  
2022: Questions and Answers Section**

Q. Please tell us about the factors behind the increase in losses in the fourth quarter of this year compared with the same period of the previous fiscal year.

A. (Kojima, Representative Director, President & COO) The increase is due to surging costs and distribution expenses caused by the disruption in logistics and planned upfront investment in advertising expenses and R&D expenses for the next fiscal year. Also, performance bonuses were higher than in the same period of the previous fiscal year due to our improved full-year earnings forecast.

Q. Please tell us about your initiatives in the Metaverse and NFTs.

A. (Kojima, Representative Director, President & COO) Digital is one of the focuses of our business, and our main initiative is “DUEL MASTERS PLAY’S.” We are considering the Metaverse and NFTs as themes for our new product development.

Q. Please tell us about the factors behind the strong trading card market and about your future market outlook.

A. (Kojima, Representative Director, President & COO) The overall trading card market, including competitors’ products, has momentum and are expanding in scale, and our sales of “DUEL MASTERS” are also favorable. At present, we forecast that this trend will continue into the next fiscal year.

Q. Please tell us the factors behind the improved gross profit ratio and reduced SG&A (selling, general and administrative expenses) in the third quarter of this fiscal year compared to the third quarter of the fiscal year ended March 31, 2020.

A. (Kojima, Representative Director, President & COO) SG&A (selling, general and administrative expenses) were reduced as a result of our shift to telework, our policy of avoiding non-essential business trips, and voluntary expense management by our employees under the COVID-19 pandemic. I also believe that another factor that led to better gross profit margin was the improved cost ratio, resulting from fewer product write-downs from the year before last.

Q. Do you plan to revise the performance figures for the next fiscal year in the Medium-term Management Plan following the upward revisions to the outlook for the current fiscal year?

A. (Kojima, Representative Director, President & COO) Because the toy industry is an up-and-down industry, we aim to increase performance over a three-year period. Therefore, we aim to achieve the three-year cumulative sales and operating profit targets we announced.

Q. Please tell us about the performance catalysts for the coming year.

A. (Kojima, Representative Director, President & COO) We reconfirmed the needs of customers to go to the store and shop during the Christmas sales season. Just when the Company began to boost sales by continuing to build out stores, the Omicron variant began to spread. Because people continue to have difficulty leaving home, the future remains difficult to predict. However, looking at conditions in the current fiscal year, we have confirmed that the toy market is not being boosted by blockbuster products, but rather by core products that are raising the market. Therefore, as the Company manufacturing multiple core products, we believe that we can expect continued sales.

Q. Regarding regional segments in the third quarter, in Europe, sales increased, but profit was flat. In the Americas, sales rose, but profit declined. What are the reasons for these results?

A. (Kojima, Representative Director, President & COO) While sales increased in Europe centered on board games, rising shipping costs caused by the disruption in logistics pressured profit. In the Americas, Fat Brain Group contributed to increased sales, but just like Europe, surging shipping costs pressured profit.

Q. Please tell us about the details of the extraordinary losses.

A. (Ito, Executive Officer, Head of Corporate Administrations) There were extraordinary losses in KIDDY LAND, which is our retail business. The extraordinary losses are composed of impairment losses on stores and on shared assets. While we had expected conditions at stores to improve, considering the spread of the Omicron variant, we deemed that improvement in this fiscal year and the coming fiscal year would be difficult and are moving forward with impairment based on discussions with our audit firm. We also recorded impairment on some fixed assets at T-ARTS KOREA.

Q. What are the factors behind the strong performance of T-ARTS Company's capsule machines and arcade game machines?

A. (Kojima, Representative Director, President & COO) Needs emerged to install capsule machines in empty space in retail stores, and we took advantage of that opportunity. Sales also increased due to synergistic effects of capsule machines with related products using popular contents. Regarding arcade game machines, the impact of COVID-19 was limited, and users grew for Pokémon Mezastar, which was released one year ago. Furthermore, the new arcade game machine Waccha Primagi!, which has been rolled out since last October, has been popular.

Q. Please tell us about Punirunes. Punirunes was a hit during the Christmas season, but I heard that the toy was out of stock in stores. Has product supply improved since then?

A. (Kojima, Representative Director, President & COO) We have let our customers down by causing the out of stock situation. However, we have resumed shipment to some extent, and expect to make the product available in stores nationwide by the beginning of March.

Q. Please tell us about the background behind the rise in core products this fiscal year and their growth potential from the next fiscal year onward.

A. (Kojima, Representative Director, President & COO) What we see this fiscal year is that with no specific super hit products to drive the entire market, customers purchased core products relatively. Amid this trend, the trading card market was strong, including for our competitors, and our sales of “DUEL MASTERS” also stretched. Because we are rolling out strong core products that are familiar and easy to buy for our customers, including TOMICA, PLARAIL, and LICCA doll, we expect strong sales to continue not only through this fiscal year but also through next fiscal year onward.

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