

Financial Results Presentation Meeting for the Fiscal Year Ended March 31, 2019  
Outline of Questions and Answers

Q. Would you please tell us about the impact of the US-China trade war on performance?

A. (Representative Director, President & COO: Kojima) I believe we need to consider the ongoing situation from two points.

The first point is the timeline. That is how long this trade war would continue and how long it would affect our performance.

The second point is how we could respond the situation while the supply chain is continuously changing.

If tariffs are applied to all products, consumers take the hit at the end. I believe the situation would start to settle down while considering the potential impact of this issue on the upcoming election.

In the short-term, the question is which of those (manufacturers, the trade, or the consumers) would take and absorb the tariff increase. However, as the supply chain continuously changes, I believe the essential measure is to reduce the proportion of our production in China, based on our “China + 1” strategy (i.e., a plan to shift our production from China to other countries) which we have pursued for 10 years.

Q. You explained that you were developing ZOIDS as a third pillar. Do you intend to develop ZOIDS into a 10-billion-yen business like Beyblades and Transformers?

A. (Representative Director, President & COO: Kojima) We intend to develop ZOIDS into a 10-billion-yen level business.

Q. You acquired distribution rights for Bakugan from Spin Master Ltd. What are the target sales quantity and the gross margin rate? Were the initial sales at the April launch in line with your expectations?

A. (Representative Director, President & COO: Kojima) The initial sales did not soar, and I hear that the situations were the same to those at Spin Masters Ltd. However, the sales starts improving. The gross margin rate is lower than our in-house items, but we plan to expand margin amounts through increased sales.

Q. You discussed the contents expansion. What were the sales composition ratio between toys and non-toy items in FY2018, and how would the ratio change in FY2020 that is the final year of your

Midterm Management Plan?

A. (Representative Director, President & COO: Kojima) Regarding the contents expansion, the ZOIDS development was described as an example in the documentation, but the contents in TOMICA and PLARAIL are also being developed in a similar manner. We are expanding the contents development in TOMICA, and currently the sales ratio for non-toy items is slightly higher than toy items.

However, the key focus of our contents expansion is based on our owned brands but not every product we market. So, I believe the sales ratio for toy items is still higher than non-toy items in FY2020.

We plan to expand contents of our owned brands actively.

Q. Why do you continue to have Anti-Takeover Measures?

A. (Representative Director, President & COO: Kojima) Since the Company was founded, we have provided high-quality products to children, and endeavored to nurture a healthy children's culture. We are happy to have shareholders who agree with the Company's all-important founding principles, but in the event that the IP held by the Company were to be broken-down into parts and previous social action programs discontinued, we believe that it is right to ask whether that shareholder is the appropriate acquirer or not.

Therefore, we believe that time is required for the parties who are interested in the Company to explain their intentions and plans to us. So, the Anti-Takeover Measures were established based on our decision that we need a process to carefully look at the party who is raising his/her hand and also check it with our shareholders.

Our present scheme in relation to the continuation of the Anti-Takeover Measures includes devises to achieve improved transparency compared to the previous scheme we had three years ago. In an event as the Anti-Takeover Measures are triggered, the Company will eliminate any arbitrary influence of our Board of Directors, and a special committee consisting of external directors who are also registered as independent directors, will make decisions and lead the process.

We hope to operate such situations in a manner that would not make our shareholders feel doubtful.

Q. Could you share the details of your measures to improve TOMY International business?

A. (Senior Managing Officer & CFO: Kutsuzawa) Our American business has been prioritized to reduce the costs in the previous fiscal year. In addition, a part of our agricultural vehicles and infant products has become profitable. We expect a rise of the topline this fiscal year.

Our Australian company is a sales office, and we plan to increase the sales, similar to those in our American business.

The progress in Europe is about one and a half year behind our American business. Since we are not yet ready to largely raise our sales, we continue to monitor the spending and to work on improving the earnings.

Q. How did you decide to expand the ZOIDS WILD contents?

A. (Senior Managing Officer & CFO: Kutsuzawa) We launched the toys and TV animated series last year and Nintendo Switch™ game software in February 2019.

In this business situations, we reviewed the reaction from the trade, discussed how we would plan the product mix to roll out in the international markets in future, and concluded that the brand's contents has enough potential to be expanded.

Q. What are the present plans for your digital business?

A. (Senior Managing Officer & CFO: Kutsuzawa) We have launched Nintendo Switch™ game software, and are planning to launch a new app during this fiscal year.

In addition to the above, we received the following request:

*You are actively engaged in CSR, but ESG disclosure score from a certain third party institution was low, which does not seem to reflect actual situations. Please make sure to improve the CSR disclosure, including how you address child labor.*

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