

Financial Results Presentation Meeting for the Fiscal Year Ended March 31, 2022
Outline of Questions and Answers

Q. The forecast of consolidated business results for the current fiscal year calls for a decline in earnings. Among the factors cited are the impacts of yen depreciation, high raw-material costs, high logistical costs and the omicron variant of COVID-19. If any other impacts are factors in this forecast, please let us know.

A. (Kojima, Representative Director, President & COO) Our product procurement is denominated in US dollars, so the depreciating yen is the biggest impact. Logistical expenses were a major tailwind in the previous fiscal year and we expect to continue to be impacted by them in the current fiscal year. These factors are absorbing earnings from increasing revenues, so our forecast for the current fiscal year calls for a decline in earnings.

Q. Is the forecast of consolidated business results for the current fiscal year a conservative one, or a stretch?

A. (Kojima, Representative Director, President & COO) In net sales, we forecast a 2.8% increase over the previous fiscal year. That is not really a stretch forecast for net sales. Moreover, we expect the weak yen and the high cost of raw materials to almost completely absorb income gained from the increase in net sales.

Q. Please tell us the average exchange rate you received in the previous fiscal year and your assumed exchange rate for the current fiscal year. Also, how sensitive are your business results to exchange rates?

A. (Ito, Executive Officer and Head of Corporate Administrations) In the previous fiscal year the rate was 112 yen to the US dollar. In the current fiscal year, we're working on the assumption that the yen will trend around the low level of about 130 to the dollar.

(Kojima, Representative Director, President & COO) We estimate that we lose 100 million yen in earnings for every yen the US dollar gains.

Q. What specific measures are you taking in response to high raw-material costs?

A. (Kojima, Representative Director, President & COO) We are purchasing raw materials in advance, to absorb volatility at an early stage. Also, we are using the centralized purchasing model to increase our leverage in price negotiations, in an effort to reduce unit purchasing costs.

Q. In the financial-results presentation materials you use the term “digital monetization.” Tell us about your company’s efforts in terms of the metaverse and non-fungible tokens (NFTs).

A. (Tomiya, Managing Director Chief Head of Business Headquarters & Head of Global Business)
For children, game spaces in the metaverse are spaces where they can gather with friends in place of a real public park. How we respond to the emergence of the metaverse as a digital playground for children is a business issue for us. At TOMY, our newly established Next Business Division is quarterbacking efforts to leverage our wealth of brand intellectual property in the development of NFTs. It’s too soon to discuss details at this point, but please look forward to further announcements.

Q. The business results for the previous fiscal year outperformed the forecast you published on February 7, 2022. Which products were key factors in that outperformance? Which regions?

A. (Ito, Executive Officer and Head of Corporate Administrations) Pokémon Mezastar and Waccha PriMagi! arcade games from T-ARTS Company, Ltd. were mainly responsible for the upswing.

Q. Tell us about the status of development of your major global products.

A. (Tomiya, Managing Director Chief Head of Business Headquarters & Head of Global Business)
TOMY owns a wealth of brand intellectual property that we can deploy in Asia ex-Japan and Europe. In Asia ex-Japan, we are deploying Tomica, SHINKALION Z and Punirunes. In Europe, BEYBLADE is becoming an evergreen product series; we are currently working on development of the fourth generation of this series. We are also working on a wide range of products as global offerings. Examples of successes we’re having from this effort include T-Arts’ MOCCHI-MOCCHI- series of plush toys. Plush toys are a popular category in the U.S. and our sales of MOCCHI-MOCCHI- are on a firm trend in collaboration with our licensing partners. In amusement machines, we are working closely with our partners in Asia ex-Japan. Going forward, we are working to expand sales through a targeted approach of offering the right person in the right place. Rizmo, which we developed as a global product line, was extremely symbolic. Capitalizing on the seeds of success gathered from that process, we are aiming to expand sales through the “the right person in the right place” approach.

Q. The trading-card market was expanding briskly up to the previous fiscal year. What do you think are the prospects for it going forward?

A. (Tomiya, Managing Director Chief Head of Business Headquarters & Head of Global Business)
In the previous fiscal year, the trading-card market expanded not only in Japan but in the U.S. as well. Even recently, our DUEL MASTERS series and the trading cards of other companies have trended favorably. We expect trading-card games to continue to perform well in the current fiscal year.

Q. What's the status of the synergy between TOMY and the Fat Brain Group?

A. (Kojima, Representative Director, President & COO) The Fat Brain Group was formerly an independent, owner-operated company that marketed its products itself in North America and through distributors in other countries. After becoming a member of TOMY Group, Fat Brain Group has shifted its sales channels and began distributing their products in Europe and Australia through TOMY International Group's distribution channels. As a result, the Fat Brain Group's sales are growing in each of these markets by hundreds of millions of yen. Moreover, the TOMY International Group is selling its products through the Fat Brain Group's D2C website and reaping synergies such as the launch of individual product websites.

Q. So should we expect more from the synergies you're creating with the Fat Brain Group? How about developments in Japan and Asia ex-Japan, for example?

A. (Tomiya, Managing Director Chief Head of Business Headquarters & Head of Global Business) We are prioritizing synergies in Europe and Australia. For the next stage, we would like to think about collaborations in the Asian region, including Japan. We want to consider localization as part of that process.

Q. What points are you focusing on in the current fiscal year?

A. (Tomiya, Managing Director Chief Head of Business Headquarters & Head of Global Business) Sales figures from our Golden Week (late April/early May) campaign are looking good. In the first quarter, core product ranges such as PLARAIL, LICCA, PAW Patrol and DUEL MASTERS drove sales. In terms of new product ranges, we have RizSta Top of Artists! and BOTTLEMAN DX, with many movie-related toys planned for the summer. In the second half of the current fiscal year, we plan to shake up the market further with the popular Punirunes series. We're preparing to deploy a wide range of other products as well, on the assumption that the COVID-19 situation will have settled down by then.

Q. The content industry seems to be in the throes of reorganization globally. Will the toy industry be affected?

A. (Tomiya, Managing Director Chief Head of Business Headquarters & Head of Global Business) BEYBLADE and TRANSFORMERS are both brands that took off with video streaming in the U.S. as its catalyst. We believe that the impact of the current reshuffle in the content industry will start to become manifest.

Q. Can you tell us about your pricing strategy for your core brands such as TOMICA amid the current inflation?

A. (Tomiyaama, Managing Director Chief Head of Business Headquarters & Head of Global Business) Inflation is a worldwide phenomenon and our competitors in the toy industry are raising prices as well. In view of the impact of yen depreciation, TOMY too must pass costs onto prices for our products including our core products as necessary. We will need to make appropriate judgements on how to respond in management terms.

Q. Your company's main target segments are Generation Alpha (born between 2010 and 2024) and Generation Z. How do your marketing and product strategies differ for these two segments?

A. (Tomiyaama, Managing Director Chief Head of Business Headquarters & Head of Global Business) Parents' values are changing, too. Rather than place huge faith in brands, today's parents are paying more attention to empathy, response to the SDGs and so on. We shouldn't try to explain products such as TOMICA and PLARAIL by talking about the history of the products. Instead, we need to sell them as brands with storytelling that the consumers can resonate with.

Q. The increase in number of GACHA capsule toy machines is stunning right now. Please tell us about the GACHA capsule toy sales results of the previous fiscal year.

A. (Kojima Representative Director, President & COO) As space opened up amid the COVID-19 pandemic, we moved forward with installing GACHA capsule toy machines, serving the needs of both retail outlets and customers. Net sales in fiscal year 2021 surged 30% over fiscal year 2020.

Q. You have been monetizing core product ranges for several years, creating a virtuous cycle that has generated new products as well as licensed toys that have sold very well. Other than tradition and history, what do you think are factors for success for TOMY?

A. (Kojima Representative Director, President & COO) Among the qualities that can be factors in our success, I would include connecting with the heartstrings of customers. We are aware that one reason our products have remained popular for so long is that they strike a sympathetic chord with people. It's important to protect and nurture our brands. We continue to pour our energy into that effort.

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