

EPISODE 2

Strategy Linking New Value and Growth

The three management reforms launched in 2014—"revolution of mind," "product revolution," and "structural revolution of business"—have steadily borne fruit, resulting in an increase in net sales and operating profit for the second consecutive year in the fiscal year ended March 2017. As we establish a structure able to quickly respond to risk-taking, globalization and other changing times, we are activating specific operations to expand business. In particular, we intend to expand earnings in overseas markets where growth is robust, namely, the Americas, Europe and Oceania.

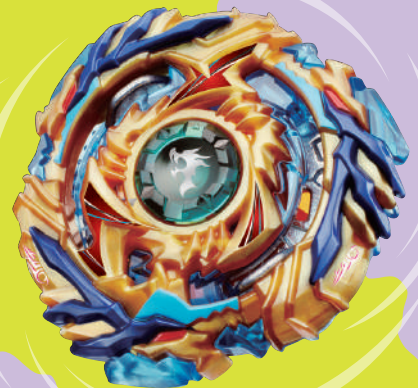
NORTH AMERICA

THE CARIBBEAN

CENTRAL AMERICA

BEYBLADE, Developing Hot Competitions in More Than 80 Countries and Regions

Since its launch in 1998, BEYBLADE, the current generation of spinning tops, has fascinated children all over the world. The secret behind its global popularity lies in common global standards and rules. In 2002, the first-ever world championship was held in Japan comprising players from five countries and regions. In 2012, the feverish battle continued, when competitors from 25 countries and regions participated in the Canada Championships. Although BEYBLADE originated in Japan, this toy has spread beyond domains of toys, national borders and even overcome language barriers to fulfill the dreams of children around the world without regard for age or gender, building bridges of peace and friendship.



AFRICA

SOUTH AMERICA

80

EUROPE

ASIA

MIDDLE EAST

JAPAN



OCEANIA

Business Highlights

Net Sales

Net sales increased 2.8%, the second consecutive fiscal year of growth. In the Europe, America, and Oceania regions, although the release of movie content merchandise had run its course, toy sales in Japan and the Asian market remained robust.

Profit

Operating profit grew substantially. Sales of high-margin domestic toys were firm and procurement costs decreased, resulting in a substantial increase in gross profit.

CONSOLIDATED RESULTS FOR THE YEAR ENDED MARCH 31, 2017

NET SALES:

¥167.6 billion

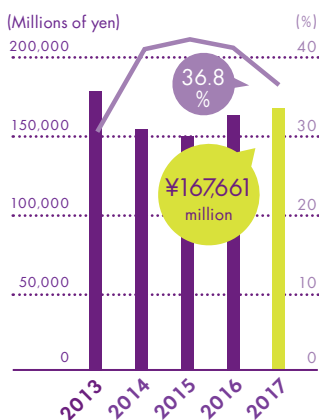
OPERATING PROFIT:

¥7.7 billion

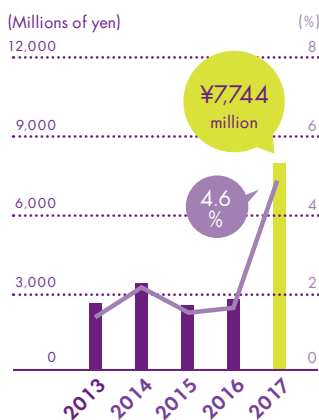
EBITDA:

¥16.2 billion

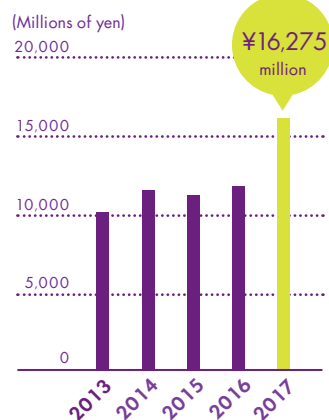
NET SALES (■)
OVERSEAS SALES RATIO (—)



OPERATING PROFIT (■)
OPERATING MARGIN (—)



EBITDA



Review of the Fiscal Year Ended March 31, 2017

Toy Market

In the fiscal year ended March 31, 2017, the Japanese toy market had a value of ¥803.1 billion, edging up slightly over the previous year by 0.3% and exceeding the ¥800 billion mark for the third consecutive year.

Compared to the previous fiscal year, when sales of core products grew significantly, in the fiscal year under review, sales of core products and core characters remained firm, with hit products and popular products contributing to market invigoration.

Business Performance

Net sales increased 2.8% to ¥167,661 million, the second consecutive fiscal year of sales growth. Although the release of movie content merchandise had run its course in the Americas (North, Central and South America), Europe and Oceania, toy sales in Japan and the Asian market remained robust. In Japan, with respect to our TOMICA, PLARAIL and LICCA core products, we enhanced our existing product lines and promoted the expansion of each product line. At the same time, sales of next-generation spinning top BEYBLADE BURST, which has been developed into a television anime broadcast since April 2016, and trading card game DUEL MASTERS increased substantially. Sales of merchandise related to Pokémon that the TOMY International Group (hereinafter, "TI Group") is involved in overseas remained robust.

Sales of high-margin domestic toys were firm and procurement costs decreased, causing gross profit to rise substantially. Operating profit increased 187.0% year on year to ¥7,744 million. In the Americas, Europe and Oceania, the TI Group switched to direct management and administration led by the headquarters while concentrating and selecting businesses to successfully reorganize overseas business, leading to significant improvement in operating profit. As a result, overall operating margin improved substantially over the previous year to 4.6%. Foreign exchange gains recorded as non-operating income were added to operating profit, resulting in ordinary profit skyrocketing 435.9% over the previous year, to ¥7,823 million.

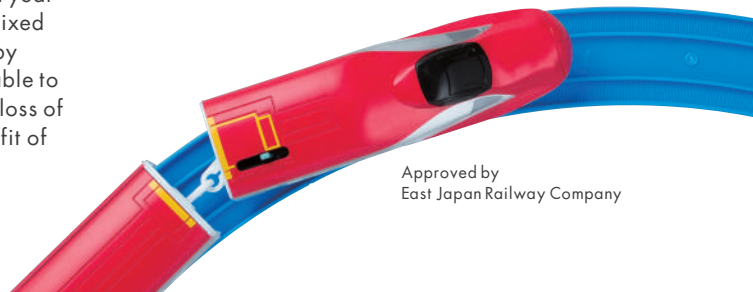
As part of the TI Group's business concentration and selection, in the second quarter of the fiscal year under review, an impairment loss on intangible fixed assets was recorded with respect to certain baby products in Oceania. As a result, profit attributable to owners of parent significantly improved from a loss of ¥6,703 million in the previous fiscal year to profit of ¥5,372 million.

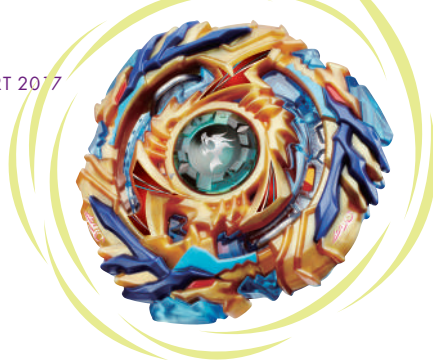
Japan

In the Japanese market, despite sluggish personal consumption, performance was solid as both earnings and profits increased. With respect to our core products, in addition to enhancing our existing product lines, we attempted to expand each product line. In our TOMICA product line, the TOMICA WORLD THRILLING MOUNTAIN gained in popularity, expanding the TOMICA world of driving fun, while single unit series such as TOMICA PREMIUM, a highly detailed collection of models that are realistically reproduced and also appeal to the adult sensibilities, sold well at convenience stores, bookshops and new points of availability (POA). In our PLARAIL product line, "Control with Smartphone! Double Camera Dr. Yellow," which enables the train to be driven using a smartphone displaying images from two cameras installed in the train, won the Japan Toy Grand Prize 2016 in the Innovative Toy category and created quite a buzz. In our LICCA product line, the "Big Shopping Mall," which enables shopping play using a realistic self-checkout mechanism responding to infrared light, gained popularity. In terms of new product lines, in June 2016 the Licca Bijou Series, which features clothing that is realistic and a bit grown up, launched sales and became very popular. To further enhance the LICCA brand value, we utilize social media including Twitter and Instagram to disseminate information and proactively develop corporate tie-ups.

Sales of BEYBLADE BURST, positioned as a BIG BET (highest priority products) were firm due to the launch of a television anime based on BEYBLADE and the effect of in-store events and other promotions conducted throughout Japan. In terms of the DUEL MASTERS trading card game, product and promotion revamps conducted in the previous fiscal year resulted in capturing new users and increased sales. In the year-end shopping season, the novel pet HATCHIMALS (Umarete! Woomo) became popular, as media coverage of the exciting experience of hatching eggs helped create a buzz.

We also engaged in the development of television anime created in-house and new character products.





T-ARTS Company, Ltd., installed GACHA at the Narita International Airport as a unique POA that has become popular mainly with international tourists. In addition, the Pokémon Ga-Olé amusement machine launched in July 2016 enabling Pokémon captured in the game to be printed out on the spot has also been received favorably.

As a result, net sales, which began to include shipments to the Americas due to changes in sales channels this fiscal year, were ¥131,810 million (up 21.5% YoY), a substantial increase over the previous fiscal year. Accordingly, gross profit also expanded significantly, resulting in operating profit of ¥10,030 million (up 20.9% YoY).

Americas (North, Central and South America)

The TI Group, divided into three regions: the Americas, Europe and Oceania, is directly managed and administrated under the guidance of headquarters. In the Americas, we continued to engage in business reorganization. One of these measures involved withdrawing from some unprofitable merchandise within baby products. We also focused management resources on six core brands, including The First Years and JJ Cole baby products and John Deere agricultural

vehicle toys. In addition, we released Japanese products to curtail investment when introducing these brands in an attempt to build a stable business foundation.

With regard to Pokémon, in addition to conventional products, we launched sales of 20th anniversary merchandise including stuffed toys and figures as well as the Pokémon Z-Ring, a bracelet-shaped item connected to the game. The popularity of Pokémon Go and other factors helped maintain solid sales for the series overall.

At the same time, the release of movie content merchandise had run its course, and agricultural vehicle toys, baby and preschool-related merchandise sales were lower, resulting in net sales of ¥28,512 million, down 17.6% year on year. However, reduced SG&A expenses resulted in operating profit of ¥197 million, an improvement from an operating loss of ¥1,586 million in the previous fiscal year.

Europe

We also engaged in business reorganization in the European region. We concentrated business in England, France and Germany, converting to authorized dealers in Russia and Poland, promoting management control of business risks and focusing the allocation of

(Millions of yen)

	2016	2017	Change	Change(%)
Net sales	163,067	167,661	4,594	2.8
Japan	108,519	131,810	23,291	21.5
Americas (North, Central and South America)	34,622	28,512	(6,110)	(17.6)
Europe	10,641	8,573	(2,068)	(19.4)
Oceania	2,509	2,509	0	0.0
Asia (other than Japan)	57,288	47,771	(9,516)	(16.6)
Eliminations and corporate	(50,513)	(51,515)	(1,002)	—
Operating profit (loss)	2,698	7,744	5,046	187.0
Japan	8,293	10,030	1,736	20.9
Americas	(1,586)	197	1,783	—
Europe	(2,418)	(581)	1,837	—
Oceania	(104)	57	161	—
Asia (other than Japan)	878	725	(153)	(17.4)
Eliminations and corporate	(2,364)	(2,685)	(320)	—

Growth Strategy

management resources on eight core brands.

Pokémon 20th anniversary merchandise was popular, as the Pokémon Z-Ring and other products drove sales in the series overall. In addition to the impact of movie content merchandise having run its course, baby and preschool-related merchandise and agricultural vehicle toy sales were lower resulting in net sales of ¥8,573 million, down 19.4% year on year. However, sales cost reductions involved with business reorganization resulting in significant improvement in operating losses, which amounted to ¥581 million compared to ¥2,418 million in the previous fiscal year.

Oceania

In Oceania, although movie content merchandise popular in the previous fiscal year had run its course, sales of Pokémon-related merchandise were robust. Also, leveraging our sales capabilities, we aggressively promoted the deployment of Japanese merchandise, enabling us to attain a top 10 share ranking among toy manufacturers for the first time. Net sales were on par with the previous fiscal year at ¥2,509 million, but a reduction in SG&A expenses resulted in operating profit of ¥57 million, a return to profitability after posting operating losses of ¥104 million in the previous fiscal year.

Asia

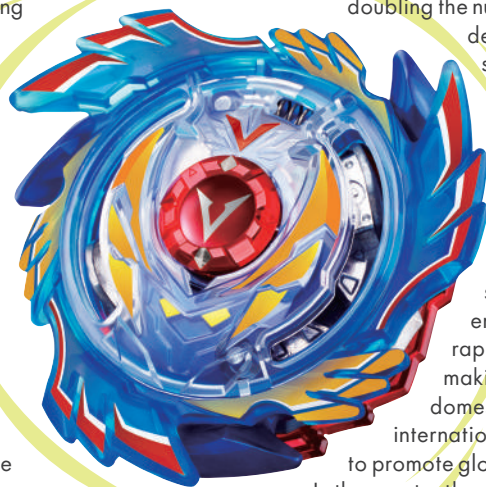
In the Asia region, we established TOMY SOUTHEAST ASIA PTE. LTD. in Singapore, and in November 2016, we commenced sales and marketing activities in Southeast Asia. Sales of popular TOMICA were firm due to efforts to create points of sale in collaboration with toy dealers and expand POA at convenience stores and bookshops. Also, TOMICA COOL DRIVE, reflecting country and region purchase levels and preferences of local children, was sold in five countries including China and Indonesia, while BEYBLADE BURST performed well due to television anime broadcasts launched in South Korea, Hong Kong and Taiwan. At the same time, lower shipments to the United States and Europe from production subsidiary TOMY (Hong Kong) Ltd., caused net sales to decline 16.6% year on year, to ¥47,771 million, while operating profit decreased 17.4%, to ¥725 million.

New Medium-Term Management Plan Summary and Progress

The TOMY Group has undergone significant transformations three times, approximately every 30 years since its founding. When the Company was founded in 1924, tinplate toys were created by craftsmen. Our second founding occurred when mass production of plastic became possible. The third founding occurred when we began linking our products to anime and other mass media. Now, we are in the midst of our fourth founding, driven by globalization and digitization, progressing forward while visualizing our path for the next 30 years.

Our New Medium Term Management Plan announced in May 2014 focused on three reforms: "revolution of mind," "product revolution," and "structural revolution of business." "Revolution of mind" focused on instilling a risk-taking attitude, advocating the necessity of globalization and promoting a change in employee awareness. "Product revolution" involved

efforts to strengthen product appeal, including doubling the number of our



development staff. "Structural revolution of business" centered on major changes to our corporate structure enabling more rapid decision-making in our domestic and international operations to promote globalization.

In the constantly moving toy industry, markets in Japan and overseas change direction on an almost daily basis, so we reduced nearly 20% of internal layers to respond and be able to move quickly.

In our New Medium Term Management Plan, we promoted reform enhancements. Looking at performance in the fiscal year ended March 2017, even in the numbers we can see the solid progress of these reforms, with the embodiment of all these reforms culminating in the successful evolution of LICCA.



2017 marks the 50th anniversary of LICCA, who had strong name recognition when we launched these reforms in 2014, but sales were lackluster. To address this situation, we engaged in branding using social media to garner the support of adult women. We created a Twitter account for LICCA and shared information on her travels to various destinations, cafés where people queue for their turns and popular fashion trends targeting women in an effort to enhance brand value. This resulted in LICCA appearing in a cosmetics advertisement and her selection as a collaboration character, expanding opportunities for use in talent-related activities. In terms of merchandise, in June 2016, the Licca Bijou Series featuring a grown-up LICCA in realistic clothing was released garnering a favorable response. As a result of these efforts, LICCA sales grew dramatically compared to before the reforms began. In March 2017, LICCA, whose father was French, maintained her position as the 2017 France Tourism Friendship Ambassador.

Rather than selling individual products, we will promote the development of brands in a similar fashion as with LICCA.

Businesses Driving Future Growth

The spread of smartphones and tablets and the expansion of social media and games are causing major changes in the concept of toys and how to play with them. TOMY is making an effort to constantly provide “new value from play” by responding to play that is evolving with the times with products and brands nurtured over a long history, while enhancing our management foundation to be able to respond to full-fledged globalization. This section focuses on the development of BEYBLADE BURST and SNACK WORLD as two examples of toy development that made significant strides in 2017 as businesses driving future growth.

Next-generation spinning top BEYBLADE BURST, which was launched in July 2015 as a BIG BET (highest priority products) and began broadcast as a television anime in April 2016, has become a massive hit, selling a total of more than 10 million units in Japan. Sales were launched simultaneously in Japan as well as Taiwan and Hong Kong and television anime and product sales have commenced sequentially across the Asia region. In the fall of 2016, television anime and product sales began in Canada, and at the end of that year, the television anime started broadcasts in the United States. In the summer of 2017, developments began in Europe, marking the full-fledged global development of BEYBLADE BURST.

SNACK WORLD (LEVEL-5 Inc.), which got its start in the December 2016 edition of monthly *CoroCoro Comic*, was made into a television anime launched in April 2017 with plans already underway on a movie, and in August 2017, SNACK WORLD TREJARERS for Nintendo 3DS went on sale. Amid this large-scale cross-media development, TOMY will promote the development of toys and amusement machines completely synchronized with games. In terms of toy development, we will comprehensively recreate the design used for the anime main characters while achieving a sense of being directly linked to the game through the integration of a small NFC chip supplied by Murata Manufacturing Co., Ltd., to create a toy collection unlike anything in the past.

In addition to these efforts, we will create product lineups able to contribute to growth going forward, including TRANSFORMERS, which have been made into movies for three years straight, JOY! VR SPACE TRAVELER, which garnered a massive amount of attention at home appliance and IT trade show CEATEC Japan 2016, where TOMY participated as the first toy manufacturer, and TOYS 4.0, which are analog toys with digital elements added.

Future Outlook

In the fiscal year ending March 2018, we will focus the allocation of management resources on core brands constituting our ongoing earnings platform and promote the introduction of domestic products in overseas markets. In Japan, we will make an effort to enhance and expand product lines in ongoing core products TOMICA, PLARAIL and LICCA, including DX TOMICA PARKING, which imparts the fun of driving, and LICCA, which marks its 50th anniversary in 2017. We will also develop numerous character products, including "TOMICA Hyper Rescue Police Drive Head," a television anime based on TOMICA that TOMY was involved in creating, as well as MIRACLE TUNES!, a special effects television series for girls. Furthermore, in addition to the development of SNACK WORLD toys and amusement machines, we will continue strengthening promotions and products aimed at acquiring new user segments for trading card game DUEL MASTERS. Overseas, we will promote ongoing business reorganization in an attempt to further improve profitability. In terms of product development, we will develop business throughout the world, including launching BEYBLADE BURST development in Europe and products related to the third TRANSFORMERS movie in as many years scheduled for release in 2017.

Through these efforts, in the fiscal year ending March 31, 2018, as announced on May 10, 2017, we forecast increased earnings and profits, with net sales of ¥170,000 million (up 1.4% YoY), operating profit of ¥8,000 million (up 3.3% YoY), ordinary profit of ¥8,000 million (up 2.3% YoY) and profit attributable to owners of parent of ¥5,500 million (up 2.4% YoY).

To strengthen our smartphone app business and acquire funding for new content (including original content), such as television and movie characters we will be focused on going forward, as well as funding necessary for toy production including that related to new content, funds were procured via treasury stock disposal and stock offerings in the fourth quarter of the fiscal year ended March 31, 2017.

To Our Stakeholders

Providing stable returns to shareholders is one of the most important issues for management. Along with striving to strengthen our business foundation and increase profitability, our basic policy remains to provide ongoing stable dividends in an amount commensurate with earnings and other considerations. An internal reserve is used to improve our financial position by reducing interest-bearing debt and for investment to accomplish global development and other medium- to long-term growth strategies. In the fiscal year ended March 2017, we provided a year-end dividend of ¥5 per share together with an interim dividend of ¥5 per share, for an annual total of ¥10 per share. In the fiscal year ending March 31, 2018, we plan to maintain dividends at this level.

Since our founding in 1924, we have made efforts toward our corporate mission of realizing the dreams of our stakeholders (children, ourselves, shareholders, business partners and society). Going forward, amid a new age of toy-making, we will continue to create new added value and brands and to grow alongside children who are experiencing the changing times. We sincerely appreciate your continued support.

