



# DRIVING TO NEW GROWTH

## Taking on the Challenge of Achieving Further Growth

2018 marks the 94th year since our founding. Over the years, we have continued to perpetuate the founding philosophies of "Let's excite the world's markets with our outstanding products" and "Our sincerity and diligence will contribute to society and lead to our own success and happiness" while promoting business aimed at becoming an "Outstanding Global Company" as we approach our 100th anniversary six years from now in 2024.

小島 一洋

**Kazuhiro Kojima**

*Representative Director,  
President & COO*

**Q****As the new President, what are your aims for TOMY going forward?****A****TOMY is a global corporation that has been focused on the world since its foundation. Going forward, we will make overseas business the driver of growth while ensuring stable growth in Japan.**

As indicated in our founding philosophy, TOMY is a global company that has always aimed to “excite the world’s markets.” We have grown substantially since our prewar beginnings in metallic toys, developing products for the world as a company contributing to Japan’s postwar export economy. Subsequently, even while experiencing a harsh period of yen appreciation after the Plaza Accord, TOMY has a history of moving resolutely forward with overseas development. For a company like ours, seeking a source of growth in global toy markets is a natural progression.

The toy market in Japan\*1 is valued at approximately ¥800.0 billion (in 2017) \*2 and remains stable. At the same time, the global toy market is valued at US\$85 billion (in fiscal 2017) \*3 and is forecast to grow at around 2% annually going forward. We will continue efforts to expand sales in overseas markets where growth is expected and attempt to maintain and expand our market share in Japan.

\*1 Excludes video game-related services  
 \*2 Source: The Japan Toy Association  
 \*3 Source: Euromonitor International

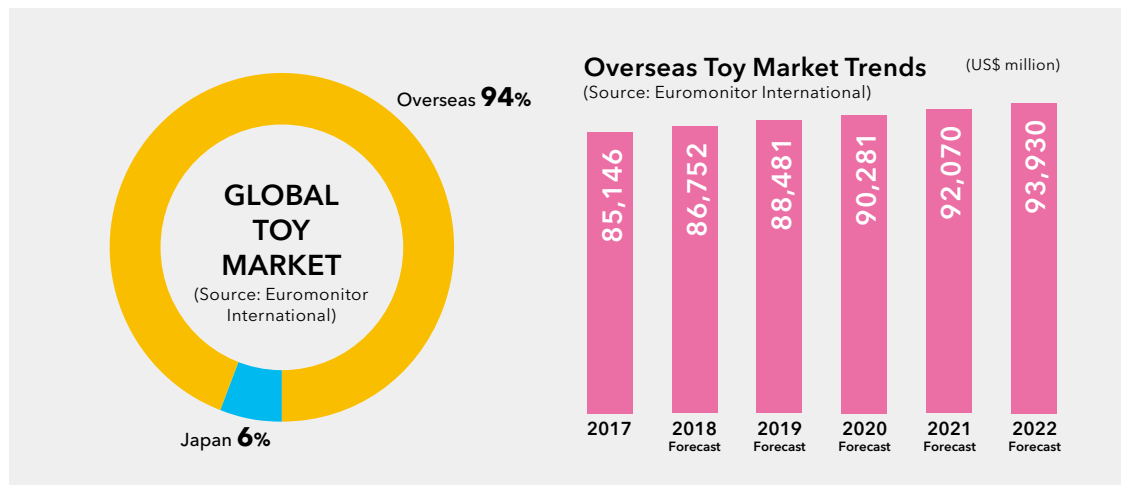
**Q****What are the strengths that will enable TOMY to succeed in the Japan and overseas markets?****A****We believe product appeal is important. We will incorporate trends while advancing long-selling products.**

First of all, the reason we have been able to create long-selling products such as PLARAIL and attain our current position amid numerous competitor’s products in Japan is that we have a strong intention to continue making and selling them as long as they are valued as quality products and have evolved while continuously incorporating and advancing with changing technology and trends.

Underlying the market stability in Japan despite declining birth rates is the fact that a segment of former children (adults) also purchase toys. Our products are developed not only for children, but

are also focused on the high-target (adults) and elderly segments, which we also hope will lead to invigoration in the Japan toy market.

At the same time, in the North American market, which is the largest in the world, trends such as creative products from small- and medium-sized manufacturers that become big hits are making waves the toy industry. I firmly believe that TOMY, which has also been able to create distinctive products that fulfill customer dreams has sufficient opportunities to compete on equal footing in global markets.





Looking back at the Medium-Term Management Plan that ended in fiscal 2017, can you sum up these initiatives and strategies?



From the stance of curtailing costs and generating profit, we took a positive turn towards taking on challenges without fear of failure. Our assessment is that the strategic change in direction toward topline growth was correct.

I will review and assess the significance of this Medium-Term Management Plan that started in fiscal 2014 in terms of TOMY's past trajectory.

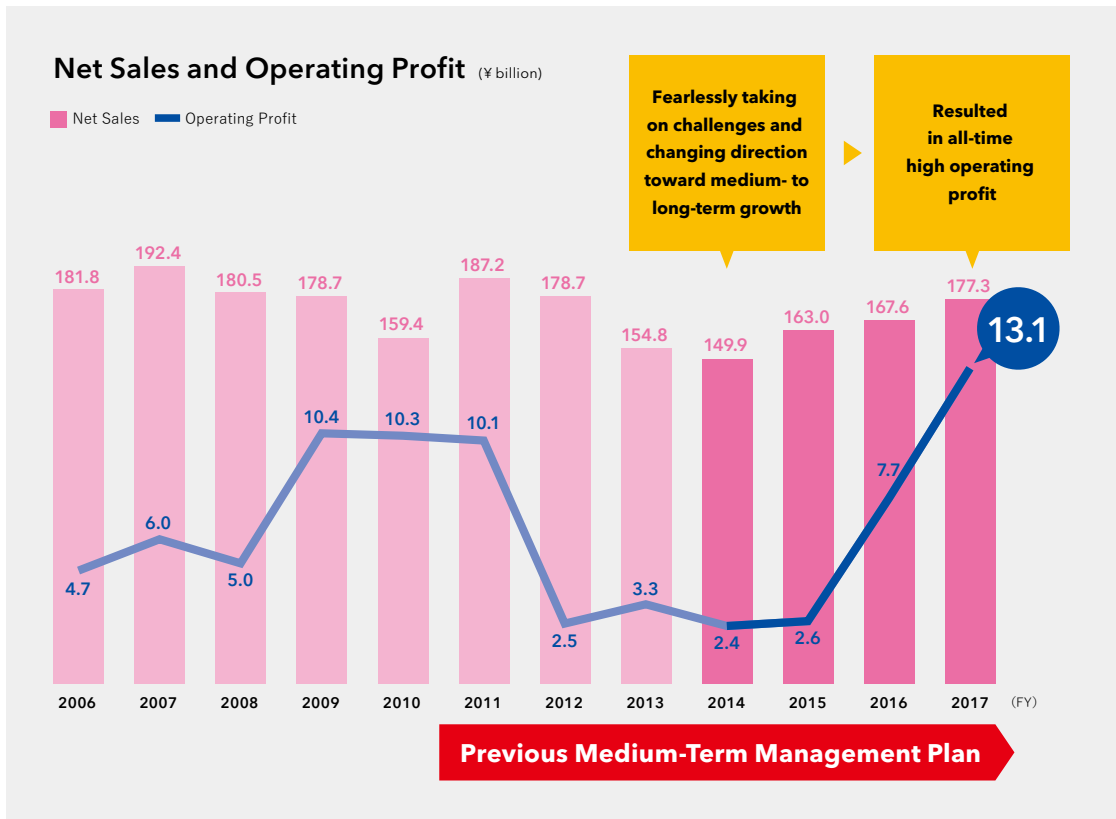
### Proactive Investment Resulting in Sales and Profit Growth Trends

In fiscal 2012, we reported a loss attributable to owners of parent and faced an extremely difficult situation. Analyzing the three years prior to that, we had refrained from upfront investments targeting sales growth and maintained operating profit above ¥10.0 billion by reducing costs. Based on that reflection, the Medium-Term Management Plan after fiscal 2013 called for three reforms: "product revolution," "structural revolution of business" and "revolution of mind," thus we promoted initiatives aimed at increasing profit through sales growth.

In terms of specific initiatives, we engaged in advertising and R&D aimed at expanding sales and proactively invested capital, while at the same time continuously encouraged employees to take on challenges without fear of failure. In my assessment, the strategy of changing direction to focus on topline growth was correct. The impact of these efforts was significant in terms of performance figures, with sales and profits maintaining upward trends, leading to net sales of ¥177.3 billion and operating profit amounting to ¥13.1 billion in fiscal 2017.

### Creating Numerous Core Products and New Products that Exceed Customer Expectations for Value

Under the previous Medium-Term Management Plan, we promoted advances in our core products while





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The previous Medium-Term Management Plan focused on advancing core products, creating new products and promoting intellectual property strategy. Successful marketing efforts led to increases in store sales shares and sales in Asia.  
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simultaneously creating numerous new products, such as *Umarete!* WOOMO (Hatchimals), OONIES and PRINTOSS (KiiPix).

The key to raising the level of branding with regard to core products such as TOMICA, PLARAIL and LICCA, which already have extremely high recognition, is the degree to which we are able to continue surprising customers' by exceeding their expectations for value. Last year we commemorated the 50th anniversary of LICCA, using social media to disseminate information while promoting a variety of licensing alliances, making a tremendous leap forward from the world of "playing with dolls" to establish a presence among adults who played with LICCA long ago and once again became interested in the doll. Additionally, LICCA was appointed the fiscal 2017 France Tourism Friendship Ambassador and remains popular as we maintain a focus on constantly developing new ideas not only in products but also experience through products.

In 2018 we commemorate 50 years since the launch of THE GAME OF LIFE, next year we celebrate the 60th anniversary of PLARAIL and in 2020 we will commemorate the 50th anniversary of TOMICA. We will of course engage in commemorative activities and strive to continue creating new value that exceeds customer expectations.

### Successful Deployment of the TOMY Brand in Japan and Asia

Under the previous Medium-Term Management Plan, we promoted the taking on of new challenges as our intellectual property strategy. For example, events related to MIRACLE TUNES! our first live action television series for young girls have grown to become content that attracts audiences of approximately 100,000 people each year, and we have begun developing the events in Asia as well. Also, after last year's launch of TOMICA HYPER RESCUE DRIVE HEAD television animation, this content will be developed for release as a movie in summer 2018. Further, in November 2018, an international contest is scheduled to be held in Paris, France for BEYBLADE BURST, which has exploded in popularity in Japan and overseas and generated a massive movement that can be seen in TOMY's performance figures.

In terms of marketing, we focused efforts on priority products and strengthened field marketing in stores, which resulted in a twofold increase in our share of store sales. Overseas, we enhanced local marketing efforts in South Korea, Hong Kong, Taiwan and other markets, leading to external customer sales in Asia nearly doubling in the past four years, reaching the highest level ever.

**Q**

Can you provide an overview of the strategic focus of the new Medium-Term Management Plan through the year 2020 that was announced in May 2018?

**A**

Under the slogan “taking on the challenge of achieving further growth,” we will focus on the promotion of six business strategies: (1) Promote in-house original global brand strategies, (2) Create original brands for Japan and Asia, (3) Category No. 1 strategy, (4) Expand business in “high-target” products for adults segment and for the elderly segments, (5) Expand business in Asia market and (6) Comprehensive strategy for business revitalization for Europe and North America.

### Development of ZOIDS into a Global Brand 2018

Having already engaged in the global development of TRANSFORMERS and BEYBLADE, TOMY will develop ZOIDS, which commemorates its 35th anniversary this year and has already achieved shipments of over 44 million units worldwide. The TRANSFORMERS movie series and BEYBLADE television animation helped raise awareness among customers and expand sales. With ZOIDS, we will also develop marketing efforts such as television animation and utilize the internet and smartphone apps that we expect will cultivate this into a global brand on par with TRANSFORMERS and BEYBLADE in the future.

### Horizontal Development of Japanese Intellectual Property in Asia

Popular Japanese intellectual property is easy to horizontally deploy in Asia, and we are on track with

the launch of TOMICA HYPER RESCUE DRIVE HEAD. We will also attempt to achieve sales growth through original brands including MIRACLE TUNES! and *MagiMajo* PURES!

### Becoming Number One in Each Product Category and Expanding Customer Base

In addition to TOMY core products, several other products have gained the top share in their respective toy category, including BEYBLADE BURST and trading card game DUEL MASTERS in the boys’ hobby category. Going forward, we will expand this top share status to other categories. In addition, we will expand products such as entertainment robot OMNIBOT and trading card game WIXOSS to the high-target and elderly segments initially envisioned during development.

### Expanding Business in the Asia Market, Comprehensive Restructuring of Business in Europe and North America

In Asia, we will strengthen TOMICA and BEYBLADE in all regions and launch the full-fledged deployment

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Strengthening our marketing and development capabilities are the keys to creating original brands, becoming number one in product categories and completely restructuring our business in Europe and North America.

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of ZOIDS. Specifically, in the China market where the expansion of the e-commerce business is remarkable, we will strengthen marketing using social media while also making a second attempt at deploying LICCA. In South Korea, we will take on the challenge of developing app-related toys such as SNACK WORLD through an alliance with a South Korean smartphone app developer.

In the Europe and North America businesses, we will attempt structural reorganization to enable the generation of profit through increased sales. To this end, we will introduce a virtuous cycle for future product planning, design, preparation and launch. We will begin with the United States, then Europe, attempting to shore up these businesses and launch the virtuous cycle from the middle of the Medium-Term Management Plan.

**Q** What are your structural and financial capital strategies for promoting these efforts?

**A** We will make wide-scale enhancements to our development function, optimize marketing, engage in the development of global human resources and establish a business foundation able to generate cash stably. At the same time, we will promote cost reductions to ensure investment resources and proactively invest in areas necessary for future growth.

**Establishing a Foundation Aimed at Expanding Earnings**

First, we will make wide-scale enhancements to our development capabilities aimed at expanding sales. In July 2018, we already launched the Planning and Development Headquarters, which includes a global Planning and Development Team. Going forward, we aim to enhance planning and development capabilities, streamline technologies, design and product prototype production, and further improve quality.

With regard to marketing, if the characteristics of each customer differ, methods and business models must also change. We will gather information on customers while establishing optimized sales channels.

Additionally, we will strive to develop global human resources who lead marketing and product development. We cannot develop human resources able to grasp the needs of children throughout the world and develop products globally overnight, but we will develop and retain employees with a focus on the future.

**Financial Capital Strategy Aimed at Future Growth**

To achieve future growth, we aim to establish a financial foundation able to secure next-generation investment resources and large-scale business investment by reducing costs and stably generating cash.

Regarding cost reductions, we will engage in factor productivity improvements through labor productivity enhancements and automation at each factory and streamline logistics costs. Investment resources secured in this way will be invested in the creation of new intellectual properties and other future growth as well as used for advertising aimed at expanding sales.

Three years from now in fiscal 2020, our basic plan aims to achieve sales of ¥190.0 billion, operating profit of ¥14.0 billion, EBITDA of ¥23.0 billion and an equity ratio of 50%.



## How do you envision TOMY 10 or 20 years from now?



We aim to become a global Company generating more than half of sales in overseas markets by the time we commemorate our 100th anniversary in 2024. In particular, we must pursue thorough quality management to realize children's dreams and smiles.

As we approach our 100th anniversary of our foundation in 2024, we aim to become an Outstanding Global Company and envision that, over the next 10 to 20 years, the ratio of overseas sales will increase to more than half of all sales. We must prepare a structure that conforms to this vision.

Additionally, as we continue to promote growth strategies going forward, sales volumes will increase, and as we expand overseas development to more areas, associated risks will also increase. TOMY creates toys with an awareness of the children who are the end-users, and although we have established an extremely high number of steps, amid the balance between quality, cost and delivery, I strongly believe that we must pay particular attention to ensuring we never put cost and delivery before quality. So that

there are never any quality issues with the toys that are the dream of children, going forward we will strengthen our management of quality and risks.

At the same time, our strength is the ability to tailor our manufacturing approach to products that touch customer hearts mainly through analog gimmicks and ingenious molding among other kinds of toys. Enhancing our business foundation and continuing to hone these strengths going forward will create products that satisfy customers, which I believe is linked to the happiness of employees, shareholders, business partners, society and all our stakeholders. As TOMY continues its efforts to achieve sustainable growth, I ask for the ongoing support of all our stakeholders.

## Previous Medium-Term Management Plan



## FY2020 Management Targets

New Medium-Term Management Plan (FY2018-2020)

## Take on the Challenge toward New Growth

Medium-term business strategy

Medium-term cost reduction and investment expansion measures

Medium-term financial strategy

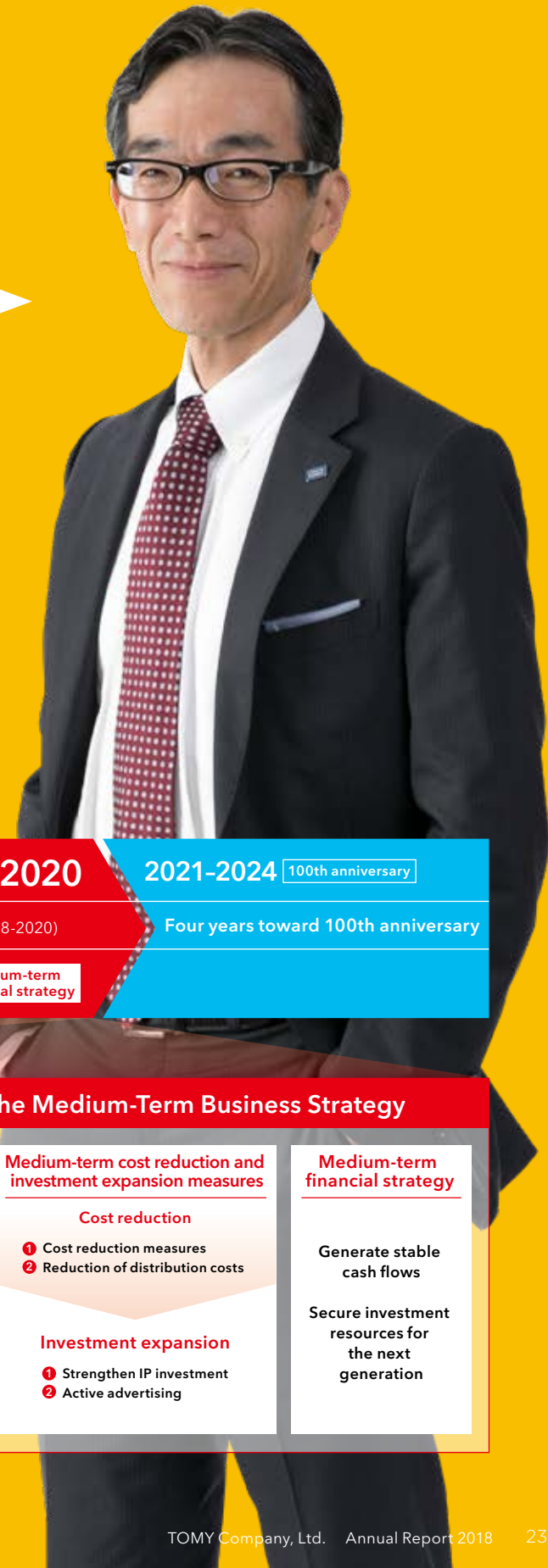
FY2018 Plan

Net sales	¥172 billion
Operating profit	¥10 billion
EBITDA	¥18 billion
Equity ratio	42%



FY2020 Targets

Net sales	¥190 billion
Operating profit	¥14 billion
EBITDA	¥23 billion
Equity ratio	50%



### Self-Introduction

As someone who has always had a strong interest in creating new things I am fascinated with toymaking, which is why I joined TOMY. In my previous work as a venture capitalist, I have seen and experienced a variety of different business projects, much of which was applicable to corporate management. I will leverage this experience in pursuit of TOMY's sustainable growth.

### PROFILE

Responsible for the fund business at a trading company and, based on that experience, active as a venture capitalist investing in various businesses and companies. Appointed to the TOMY Board of Directors as an outside director in 2009, after which he became Director and Senior Executive Officer and CFO, then Representative Director, Vice President, COO and CFO, and currently serves as Representative Director, President and COO.

2018

2019 95th anniversary

2020

2021-2024 100th anniversary

New Medium-Term Management Plan (FY2018-2020)

Four years toward 100th anniversary

Medium-term business strategy

Medium-term cost reduction and investment expansion measures

Medium-term financial strategy

## Execute Three Plans Including the Medium-Term Business Strategy

### Medium-term business strategy

- 1 Promote in-house original global brand strategies
- 2 Create original brands for Japan and Asia
- 3 Category No. 1 strategy
- 4 Expand business in "high-target" products for adults segment and for the elderly segments
- 5 Expand business in Asia market
- 6 Comprehensive strategy for business revitalization for Europe and North America

Significant enhancement of development ability

1. Strengthen planning/development abilities
2. Improve efficiency of technology, design, prototype production
3. Improve quality
4. Establish global, dedicated team

### Medium-term cost reduction and investment expansion measures

#### Cost reduction

- 1 Cost reduction measures
- 2 Reduction of distribution costs

#### Investment expansion

- 1 Strengthen IP investment
- 2 Active advertising

### Medium-term financial strategy

Generate stable cash flows

Secure investment resources for the next generation