



# chapter

## TOMY Group Growth Strategy

# *Our aims and the management we have adopted to achieve them*

Throughout its existence, the TOMY Group has created products that children love, including numerous long-selling products that have appealed to consumers of all generations and hit products that reflect current trends. For nearly a century, technological development has been striking and customer needs have been changing substantially. Furthermore, in 2020, the world faced a global pandemic that has further accelerated change. In this section, we will introduce growth strategies described by President Kazuhiro Kojima and explain the targets the TOMY Group is pursuing, as well as the management it has adopted to achieve them.



## Message from the President



小島 一洋

Kazuhiro Kojima

Representative Director,  
President & COO

First, I would like to extend my deepest sympathies to those who have been affected by the novel coronavirus disease (COVID-19), their families and all others who have suffered as a result of this global pandemic. I would also like to take this opportunity to pray for the souls of those who have lost their lives due to this menacing scourge. Furthermore, I would like to express my gratitude toward those who are employed at medical institutions and all others who are working tirelessly to prevent the spread of the virus.

1

### Business Environment

#### TOMY Group Initiatives Aimed at Fighting the Spread of COVID-19

In 2020, many precious lives have been lost throughout the world due to COVID-19, and many of those who were unfortunately infected by the virus continue to fight for their lives. We have also been forced to make sweeping changes to the lifestyles to which we are accustomed. Although we hope that COVID-19 is resolved as quickly as possible, we must realistically be prepared for a long-term battle with the disease.

In an environment where consumer behavior is changing along with their lifestyles we must adjust our own behavior as well. The entire TOMY Group is actively fighting the spread of COVID-19 with all its strength so that it can continue to create superior products and fulfill the dreams of children.

Since COVID-19 began its global spread in February, many countries have restricted the movements of their citizens or closed stores that do not carry daily necessities. At the same time, the number of countries and regions that are imposing citywide lockdowns is increasing. Under these conditions, the TOMY Group is joining the fight by implementing the "TOMY Group Novel Coronavirus Infection Prevention Measures" indicated on the following page at all domestic and overseas bases.

Many toy stores that offer our products have closed temporarily or shortened their business hours.

We must accept the fact that we will not be able to immediately return to normalcy, even after economic activity resumes. Instead of being complacent, we must prepare for a second or third wave of the virus and, among other measures, continue to impose certain behavioral restrictions with the goal of reducing human contact that can spread the virus.

## TOMY Group Novel Coronavirus Infection Prevention Measures (as of July 31, 2020)

### 1. Workstyles

- Reduce the number of commuting staff with rotational schedules and shift-based work
- Promote teleworking
- Stagger working hours to reduce infection risk

### 2. Employee behavior-related measures

- Require thorough hand washing, mouth washing and cough etiquette
- Check temperature (mandatory) in the morning and at night to decide whether to go to the office; employees who have fevers or are otherwise unwell are instructed to refrain from coming to work
- Prohibit in-house meetings or business negotiations involving six or more individuals (Meetings with large numbers of people are to be permitted on the condition that they are held in large conference rooms with proper ventilation, desks and chairs are appropriately arranged, and prevention and hygiene management measures have been thoroughly implemented)
- Ban outside meals with external parties
- Require advance reporting of external meetings
- Generally, prohibit overseas and domestic business trips

### 3. Store-related measures

The TOMY Group temporarily closed some of its stores (TOMICA Shop, PLARAIL Shop and KIDDY LAND), but these have now reopened.

### 4. Event-related response

The TOMY Group has cancelled events it hosts and will consider reinstating them while monitoring current circumstances.

## Changes in the Toy Market That Are Accelerating due to COVID-19

More than 60% of the TOMY Group's sales come from Japan's toy market, which has maintained a scale of more than ¥800.0 billion despite the nation's declining birthrate. However, trends within the market had begun changing even before the spread of COVID-19. Namely, our target customer base is expanding beyond children to include a more high-target group, which includes adults. We are currently facing an era in which we must reconsider how we respond to changes associated with the expanding target customer base, including shifts in marketing and customer touchpoints. Mass marketing focused only on children is no longer enough; it is increasingly necessary to conduct marketing that directly conveys information and messages that resonate with our target audience using SNS and other communication tools. Furthermore, COVID-19 has begun to accelerate these changes in the market. Due to the pandemic, a range of consumer behavior that extends from information collection to purchasing is being conducted at home rather than outside.

Accordingly, the weight of importance among customer touchpoints is shifting from the conventional sales floor to the home.

In response to these environmental changes, the Group will reexamine its strengths, put all five senses to work, share intellectual resources and apply inventive ideas.

At the same time, we will continue to put every effort into dealing with the environmental changes due to the novel coronavirus now and in the future.

## 2

Review of Business Results for the Year Ended March 31, 2020, and Progress of the Medium-Term Management Plan

## Impact of the Novel Coronavirus on Business Results for the Year Ended March 31, 2020, Was Limited

The novel coronavirus pandemic had limited impact on the fiscal year ended March 31, 2020.

We contract some of our manufacturing out to factories in China, where the pandemic began earlier, but began transferring production to other areas about 10 years ago as part of our "China Plus One" strategy.



This and other factors limited the pandemic's impact on production. The virus also did not appear to have a substantial impact on storefront purchasing trends in January–March.

### The Second Year of Our Medium-Term Management Plan, during which We "Took on the Challenge toward New Growth"

The fiscal year ended March 31, 2020, also marked a turning point with our Medium-Term Management Plan, which we adopted under the theme of "Take on the Challenge toward New Growth." Having generated record-high profit in the fiscal year ended March 31, 2019 (the first year of our Medium-Term Management Plan), we were able to start the fiscal year ended March 31, 2020, with an upward revision to projections for the fiscal year ending March 31, 2021, the final year of the plan.

During 2019, which was the 95th anniversary of TOMY's founding and the 60th anniversary of PLARAIL's launch, we boldly took on an array of new challenges.

For example, in September 2019, we launched Rizmo, which we had designed as a global, large-scale strategic product line, throughout the world.

In December 2019, through our digital business, we began distributing DUEL MASTERS PLAY'S, an optimized smartphone app version of the DUEL MASTERS trading card game that was launched in 2002.

### Further Strengthening of Product Planning, Development and Marketing

These initiatives were developed by two planning departments that we established with the goal of strengthening our capacity to design and develop products: The Planning and Development Headquarters and the Digital Planning Division. We regard the creation of innovative and exciting hit products for children as essential to our business and believe that our ability to create these products is indicative of the enhancements we have made to our organizational structure with the goal of improving expertise and operational efficiency. In July 2019, we aimed to further strengthen our product planning and development capabilities, as well as enrich our marketing abilities, by consolidating the product planning and development functions that remained in the Marketing Headquarters into the Planning and Development Headquarters. Through organizational reforms such as these, we will establish our marketing mix from a medium-term perspective, identifying potential customers, clarifying target groups and analyzing our positioning in the market. At the same time, we

will create new business domains that will enable us to innovate from an entirely new point of view.



© TOMY



©2019 Wizards of the Coast/Shogakukan/Mitsui-Kids ©TOMY ©DeNA

### Promotion of Further Business Reform in Response to Tough Results during the Year-End and New Year Sales Season

Despite the launch of a large-scale strategic product line, we conducted business while adopting a particularly careful approach toward monitoring sales trends and consumer behavior in the second half of the fiscal year ending March 31, 2020. We adopted this approach because of a complicated domestic environment that involved a consumption tax increase implemented in October 2019. Despite our caution, we faced a difficult struggle during the Christmas and New Year holiday period, which is typically the largest sales season of the year, due to unusually lackluster conditions. Moving forward, we must analyze the factors that led to this struggle and ensure that our findings are reflected in future product planning. However, in light of these results, we revised downward our full-year earnings forecast when announcing our third-quarter financial results on February 12, 2020.

Ultimately, sales fell in all regions during the fiscal year ending March 31, 2020, and net sales amounted to ¥164.8 billion (down 6.8% year on year), despite growth in the sales of goods such as our core TOMICA products and merchandise related to the Toy Story 4 and Frozen 2 films. This decline was the result of lower sales of BEYBLADE BURST products, which have reached their fifth year on the market, and a reactionary decrease in sales of products related to the TRANSFORMERS film. Due to the sliding sales, operating profit dropped 25.8% year on year to ¥10.6 billion, and ordinary profit fell 28.7% year on year to ¥10.2 billion. In addition, profit attributable to owners of



parent plummeted 51.5% year on year to ¥4.5 billion as we recorded ¥2.8 billion in extraordinary losses that included an impairment loss associated with the TOMY International Group. We take the simultaneous decline in sales and profit seriously and strongly believe that we must respond to accelerating change in the toy market caused by COVID-19 by pushing forward with management reforms more boldly than ever before.



© Disney/Pixar



© Disney



### 3

## Future Outlook

### Sales and Profit Expected to Decline in the Fiscal Year Ending March 31, 2021, due to the Impact of COVID-19

Production-related operations in China, Vietnam and Thailand have been normal since April 2020, but some launch dates have been postponed due to the impact of COVID-19, leading to lost sales opportunities. The pandemic has also led to increases in demand for products that can be enjoyed at home and in e-commerce purchases. However, the virus continues to have an unfavorable impact on product shipments as consumers voluntarily stay home, lockdowns are imposed overseas, film screenings are delayed, and various events are postponed or canceled. We anticipate that we will begin to recover from the decline in sales caused by the pandemic in the third quarter, but sales declined substantially during the first half of the fiscal year. As a result, we project full-year net sales of ¥145 billion in the fiscal year ending March 31, 2021. As new lifestyles lead

to changes in consumption behavior and corporate activities, we are implementing controls over our selling, general and administrative expenses. Despite these efforts, we project operating profit and ordinary profit of ¥5.5 billion each and profit attributable to owners of parent of ¥3.0 billion due to the decline in sales. Based on these forecasts, we plan to issue a full-year dividend of ¥15 per share.

### 4

## Issue Awareness and Future Initiatives

### Changes in Consumer Behavior Caused by COVID-19

The novel coronavirus pandemic has required us to adopt new lifestyles under which we restrict our movement as much as possible, maintain distance from others, thoroughly utilize online shopping and avoid contact with in-store exhibits of product samples or other items. Companies are also facing the need to make workstyle changes, including the adoption of teleworking and staggered working hours and innovative adjustments to meeting procedures. Business environments are also expected to change. Achieving recovery in demand associated with inbound tourism will likely remain difficult until the pandemic subsides.

The novel coronavirus crisis has already resulted in a variety of changes in consumption behavior, and the number of people who have grown accustomed to online shopping, which is increasingly including the elderly, is rising daily. The pandemic also requires us to avoid the Three Cs (crowded places, closed spaces and close-contact settings) associated with a high risk of infection, which makes holding and attending various events problematic. On the other hand, the pandemic has aroused global demand for products that can be enjoyed at home. As a result, games, puzzles, handicrafts, toys for assembly and outdoor playthings are increasing in popularity.

Accordingly, the TOMY Group's sales of products that can be assembled as well as modified and enjoyed by



© TOMY

©1968, 2016 Hasbro.All Rights Reserved. © TOMY

entire families, including the Game of Life, Pop Up Pirate, PLARAIL, ZOIDS Wild and the Somen Noodles Slider Series, are growing.

Due to the tough economic circumstances and new lifestyles caused by COVID-19 in 2020, we must be prepared for the overall size of the toy market to shrink. We must also reconsider how we conduct business and devise new ways of allocating management resources based on the assumption that consumer purchasing behavior will change. Furthermore, our marketing cannot be grounded in placing products on shelves, where customers can hold them in their hands; instead, we must use social media and other means to communicate more closely with our customers while designing products in ways that allow consumers to understand their benefits and characteristics while they remain at home.

### Unique Strengths That the TOMY Group Has Rediscovered during COVID-19

Amid various changes, the TOMY Group has rediscovered its unique strengths, which include the appeal of its products, the core products and brands that this appeal has generated and the customer base that the Group has built using its products. An environment in which consumers are refraining from going outdoors has given rise to demand in the toy industry for products that can be enjoyed at home. Accordingly, TOMY Group toys that can be enjoyed by the whole family are gaining popularity. The time that viewers spend watching YouTube has also been increasing since February 2020. TOMY's official YouTube channel has approximately 1.17 million subscribers\* and its videos have attracted more than 1.2 billion views. In addition, its official Twitter account has about 340,000 followers, and LICCA's Twitter and Instagram accounts have a combined total of about 220,000 followers.\*

The TOMICA, PLARAIL and LICCA brands are recognized not only by children, who are their target customers, but also by an overwhelming number of their parents (about 90%), who include current influencers and decision makers. These brands have demonstrated their power and have continued to contribute to the maintenance of a stable business scale during COVID-19. Moving forward, we will utilize SNS to revitalize communication with the customer bases that surround these brands while further raising awareness regarding their value. Furthermore, we will fulfill the wants of these customers, which will become stronger due to the stressful situations we are currently facing, through the strong appeal of our products. By enhancing this type of customer-oriented business development, the TOMY Group will further hone its strengths. We will leverage these strengths as a driving force that will enable us to overcome COVID-19 while simultaneously aiming to channel them in a way that will allow us to

continue utilizing them as firm advantages once the pandemic subsides.

\*As of July 31, 2020



© TOMY

## 5 Regional Strategies

### ■ Japan: Aiming for Growth in the Digital Business That Is Based on the Stability of Our Core Products

We will strive to create new products while firmly maintaining the business scale of our core product brands, which include TOMICA (which celebrated its 50th anniversary in 2020), PLARAIL and LICCA. Furthermore, we will continue to take on a variety of challenges associated with developing ZOIDS WILD as the third pillar of our in-house original global brands, next to TRANSFORMERS and BEYBLADE.

We will also focus on our digital business, which we expect to grow in the future. The scale of Japan's mobile game app market has exceeded ¥1 trillion and continues to grow, albeit at a slower pace. Companies are currently competing to acquire new users as the population of gamers itself is not increasing substantially. As mentioned above, we have launched DUEL MASTERS PLAY'S, a card game app for smartphones, and are continuously working on its development. In addition, we are developing a game app based on PRIPARA, one of the PRETTY SERIES arcade games, which marked its 10th anniversary in 2020. Through these efforts, we will strive to expand the digital business while ensuring that fans can enjoy our content for long periods of time by applying the analog expertise that we have cultivated over the years to adapt it for use in the digital realm.

### ■ Overseas: Moving Toward an Era in which the Asian Markets Drive Growth for the Entire TOMY Group

The TOMY International Group is aiming for expansion in European and American markets, which are incurring more impact from COVID-19 than the Japanese market due to lockdowns and other strict restrictions on movement and going outdoors.

One of the core brands that the TOMY Group is rolling out in the Americas is the MIT (mother, infant and toddler) lineup of baby-related products. Consumption trends associated with baby-related products, which is a product category that is closely related to daily necessities, incurred a relatively low amount of impact from COVID-19 compared to the consumption trends associated with toys.

Accordingly, we anticipate strong performance from our line of baby-related products that received 2020 Innovation Awards (sponsored by the Juvenile Products Manufacturers Association in the United States) and are set to launch in 2021. In addition, since March 2020, we have been actively launching products associated with Ricky Zoom, an animated television series that has achieved high viewership ratings and acclaim throughout the world since its debut in June 2019. In Europe, sales of Drummond Park Brand Product board games, for which we acquired sales rights during the previous fiscal year, were strong as demand for products that can be enjoyed at home expanded. Accordingly, we will continue to develop this brand moving forward.



Ricky Zoom © Frog Box & Entertainment One UK Limited 2020



© 2019 Drummond Games Ltd.

In Asia, BEYBLADE BURST sales declined while core products and film-related products performed favorably. The impact of the novel coronavirus is currently uncertain, especially in Southeast Asia. Despite this uncertainty, we will endeavor to achieve further growth through the launch of core products and products linked to animated content. The Japanese market is incurring disadvantageous structural impact from the declining birthrate and aging population. As a result, the TOMY Group's growth markets are located overseas, particularly in Asia. Markets in Asia are generally more compatible with markets in Japan when compared to those in other regions. Therefore, we view the fiscal year ending March 31, 2021, as a year in which we will solidify our branding in the Asian market and conduct business expansion.

Overseas sales currently account for about 33% of the TOMY Group's overall net sales, a figure the Group aims to raise to 50% over the medium to long term. To achieve this goal, we will aim to establish a highly efficient business that can achieve global expansion with the use of single products. At the same time, we will strive to elevate our presence in overseas markets by simultaneously developing several products that meet the tastes and needs of customers in all regions. When conducting this development, we must localize our products by ensuring that we properly grasp the needs of customers in each country and region. Furthermore, we must conduct marketing and sales that are regionally appropriate. We need to apply further ingenuity and effort to better understand which aspects of our products appeal to customers in different regions. In addition to our commitment to creating products of good quality, we must conduct product development while ensuring that our goods fulfill the wants of our customers and exceed their expectations.

"Take on the Challenge toward New Growth" is the theme of our Medium-Term Management Plan. The Group will continue to accept challenges related to business expansion overseas and all actions and initiatives required to achieve it. Through these efforts, we will fulfill our Founding Philosophy: "Let's Excite the World's Markets with Our Outstanding Products."

## 6 To Our Stakeholders

The TOMY Group has consistently enhanced its management foundation to achieve sustainable growth. At the Annual Shareholders Meeting held on June 26, 2020, three new outside directors were appointed. These selections brought the number of outside directors serving on the Company's Board of Directors to six of the 11 members. In addition, we believe that these nominations have further enhanced the diversity of our Board of Directors by adding two more female outside directors, bringing the total number to three of the 11 members.

In addition, we have decided to issue our shareholders an annual dividend of ¥30 per share (including interim and year-end dividends of ¥15 per share each) for the fiscal year ended March 31, 2020. Furthermore, we are promoting share buybacks to enhance shareholder returns. The world is facing difficult circumstances due to COVID-19. During these tough times, the TOMY Group will create new value from play while striving to foster a healthy culture for children and supplying them with excellent products. We humbly request continued support from our valued shareholders as we move forward.