Corporate Strategy

Refine our strengths and maintain a high ROI while investing in growth to expand into wider regions and age ranges

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Board Director,
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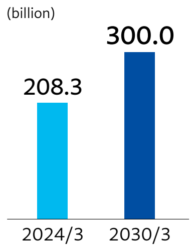
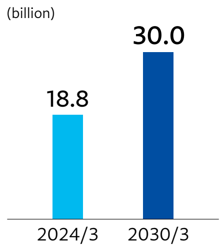
Targets (Year ended March 31, 2030)

Net sales



¥300.0 billion

Operating profit



¥30.0 billion

Operating profit margin

Target **10** %

Earnings per share (EPS) Growth rate

Ongoing
10 % or more

Return on equity (ROE)

Ongoing
11 % or more

Equity ratio

Approx. **50** %

Total payout ratio

Basically
50 %

Price-to-book ratio (PBR)

3 times target

Pursue Asobi and Be the Core of the Growing Industry

In FY2023, we achieved record highs for both net sales and profit. Net sales were 208.3 billion yen, exceeding the 200 billion yen figure we had wished to reach for a long time. Our operating profit was 18.8 billion yen. Products like TOMICA, BEYBLADE and GACHA spread to kidults globally. They are accepted by a broad range of customers. The expansion into wider age ranges and regions makes me very emotional.

I joined the company in 2016. That year, the annual number of births fell below one million for the first time and the declining birth rate began to manifest strikingly. Many people viewed the toy industry, which typically targeted kids, as a declining industry. Today, we are seeing a dramatically different view: Japanese IPs such as cartoons and animations are earning significant recognition all over the world. As the popularity of Japanese content has grown, we have globally offered asobi to all age groups and have steadily bolstered our profit base. I feel that TOMY Company, which operates in what was positioned as a declining industry a while ago, has shifted to being a growing company occupying the core of a growing industry today.

The TOMY Group's Strengths

Thanks to your support, we celebrated our 100th anniversary in February 2024. The TOMY Group's strengths lie in our having been loved by customers and stakeholders for a long time. For example, TOMICA, PLARAIL and LICCA dolls are brands with long histories spanning more than five decades. BEYBLADE also has a 25-year history. Furthermore, we have built long-lasting, wonderful relationships with our partner companies, which also have strong characters. A long life cycle means a business model that is different from those in other categories of business. A distinctive characteristic of the TOMY Group is that we have these products and brands.

We have continued to invest in these brands. We have tried many different development ideas, commercials, animated works and events such as TOMICA Fair and PLARAIL Fair. On a single-year basis, they are not so great in terms of monetary value. However, these activities have been cumulatively refined through investment. In monetary terms, these cumulative investments are beginning to generate returns, like a cup of water overflowing. This is represented by net cash on the balance sheet.

Review of the Previous Medium-Term Management Plan

The three-year period of the former Medium-Term Management Plan, which ended in FY2023, was affected by COVID. It seems we had a turning point during the three-year period, where a tailwind began to blow in our business environment Recognition of Asian culture and Japanese culture and content, in particular, has increased globally. In the past, they were treated as a subculture. Today, they are regarded as mainstream culture and are gaining global popularity. The post-COVID increase in demand generated by inbound tourists is also a big turning point.

In this business environment, we grabbed the opportunity to globally expand our businesses and became a growing company. In my view, three aspects of our efforts worked effectively, advancing our strategies in terms of exits, ages and regions with "putting the right person in the right place" as the key, creating hit products based in Japan and preparing for global growth by continuing to invest in IP, under the basic policy set forth in the previous Medium-Term Management Plan, laying a foundation for sustainable growth while globally leveraging our strengths.

At the same time, the business environment surrounding us was formidably challenging in terms of both logistics and manufacturing. More specifically, there was a steep rise in raw material prices and an increase in the costs incurred in overseas supply chains, among other challenges. Despite this, an increase in sales greatly helped us overcome the adverse conditions and our profit ratio increased, exceeding the breakeven point. At 99.9 billion yen, our net assets in FY2023 reached nearly 100 billion yen. The net cash ratio is 50%, and the equity ratio exceeded 60%. Exchange rates fluctuated greatly during that time, but we successfully controlled the impact of these fluctuations by properly hedging risks.

Looking back on the past 10 years, our profit structure improved because, in my analysis, of our creation of high returns from our existing brands and the growth of T-ARTS and KIDDY LAND. The former had a dramatic breakthrough with products such as GACHA while the latter gained significant support from inbound tourists and women. After COVID, we shifted more to investing in our strengths. This reduced the volatility of our business and reinforced our ability to generate cash. Consequently, our business has leveled and is no longer concentrated on the third quarter; instead, it operates on an annual basis. Our financial efficiency has improved accordingly. Going in this direction should, in line with the former Medium-Term Management Plan, result in the strengthening of our financial base. For me, the amazing improvement in earnings reaffirmed this.

Medium- to Long-Term Management Strategy 2030 Launched

Our Medium- to Long-Term Management Strategy 2030, released in May 2024, sets forth the FY2030 targets of 300 billion yen in net sales and 30 billion yen in operating profit. We will also seek to remain at or above an ROE of 11%, an EPS growth rate per share of 10%, an operating profit margin of 10%, an equity ratio of about 50%, and a total payout ratio of basically 50%, while increasing the PBR to three times. To achieve these targets, we will implement thorough financial strategies and capital policies.

The pillars of our growth are organic growth with a focus on globalization, M&A activities maximizing our high cash-creating capabilities and growth through alliances. Our target is to increase net sales approximately 100 billion yen from the current level to approximately 200 billion yen. While our growth in Japan continues, our growth overseas will outpace our growth in Japan. In the future, our current domestic to overseas net sales ratio of 7:3 will be reversed.

Overseas, our priority markets are the countries and regions that have a certain GDP per capita or higher. The areas with high affinity to Japanese content are our primary targets. This year, I had the opportunity to visit Paris in September and Los Angeles in October. Merchandise with Japanese characters is easily available at specialty stores, major bookstores and megastores in large quantities. I saw many people of different genders and races, from teens to grown-ups, pick up and buy Japanese products such as accessories, figures and plastic models. Unfortunately, however, the TOMY Group is still a minor part of this Japanese merchandise. I am very frustrated about this, and I see a lot of growth potential. Asian countries including China, mainly wealthy people, trust Japanese brands greatly. They also represent an important customer segment that supports the demand generated by inbound tourists. Establishing new organizations, increasing our logistics and sales networks and introducing human resources in overseas regions that have a high affinity with Japanese content should enable us to expand into wider regions and age ranges. From the perspective of a global supply chain, we will pay attention to the recent increase in geopolitical risks. At the same time, we will refine our brand power from a global perspective. These efforts will lead to the expansion of sales.

Cash Allocation

We had about 60 billion yen in cash as of the end of March 2024. A part of EBITDA (26.5 billion yen) excluding the portion retuned to shareholders as dividends, etc., will be allocated to investing in growth to enhance our corporate value. As our business model does not require that we investment in equipment such as large devices or infrastructure, our investments in organic growth will be mainly directed to our ongoing efforts to strengthen our brands and to intangible assets such as human capital. Regarding IP, concentrating investments in long-selling IPs will refine brands without allowing them to end up as commodities. My understanding is we are now able to allocate cash to M&A activities and the acquisition of IPs. We will put more effort into the formation of alliances of different forms, including acquisitions, with companies that will help us expand into wider age ranges and regions by, for example, seizing new business opportunities or strengthening our sales capabilities and supply chains. In M&A activities, we value financial discipline, including practices such as maintaining our post-PMI ROE and equity ratio, as well as the amount of purchases and expected returns as the volatility of our industry is relatively high.

Investment in Intangible Assets

Regarding investments in intangible assets, investment in human capital is most important for us. The biggest issue is organizationally becoming capable of achieving the targets stated in our Medium- to Long-Term Management Strategy and reinforcing our organizational strengths. This is because stagnation in the globalization of the human resources that support our organization and allowing our sales base to remain disproportionately concentrated in Japan would limit the speed of our regional and global growth. We will actively increase investment in human capital and provide our human resources with more opportunities to grow on a global level while also recruiting human resources from outside our organization. This should enable our business to grow.

In addition to investing in human capital, we will aggressively invest in defensive and offensive measures to enhance our brand value. Defensive measures will be taken over the span of a few years in the regions and countries where counterfeiting is rampant to prevent damage to our brand value. At the same time, we will promote intellectual property strategies to increase barriers to entry, such as the acquisition of patents. Our brands are not limited to merchandise. For example, going to a KIDDY LAND store in Harajuku or Umeda or visiting TOMICA Fair or PLARAIL Fair with your family represents value that we offer. By digitalizing the value we offer, for example, we can invest in offensive measures to enhance our brand power using the value offered by the different forms of asobi that we have developed to date.

We will also measure our impact on the sustainability of society through scientifically grounded research, in terms of the mental and intellectual impact of the value offered by TOMICA, PLARAIL, LICCA dolls, BEYBLADE, DUEL MASTERS and other forms of asobi as we strive to “inspire and delight the world” as our latest Purpose says.

Our Shareholder Return Policy and My Message to Stakeholders

I am glad that, at the general meeting of shareholders, I met many shareholders who are also fans that support TOMY. Recently, we announced a shareholder return policy that included a total payout ratio of 50%, basically. Going forward, we will unfailingly carry out the Medium- to Long-Term Management Strategy and enhance our corporate value so that we will be able to return more profit to shareholders.

The COVID pandemic in the period of the former Medium-Term Management Plan left us no choice but to accept many restrictions. Ironically, however, the experience gave us an opportunity to renew our understanding about the power of the TOMY Group’s merchandise and brands. We have continued to invest in our existing products and brands, and this accumulation of investments is generating an overwhelming return. This high ROI solidifies our management base. Globally rolling out products and brands will, I believe, lead to steady and significant growth.

“Quality Asobi can inspire and delight the world.”

As a global corporate division and a manager of the division, I will be an enthusiastic driving force within the company to continue to improve our “Quality Asobi,” our corporate value, to achieve our latest Purpose as we strive for steady growth in the pursuit of our long-term targets.