

TOY INDUSTRY

KEY TAKEAWAYS

- 1 U.S. toy industry sales down 8% YTD; units sold are down 9% with average selling price up 1%
- 2 Inventory levels erode in an attempt to combat the overstock from an underwhelming 2022 holiday period
- 3 Strong online toy sales during Cyber Week, but major operators are still anticipating an overall weak holiday selling season

After experiencing record-high sales during the pandemic, the toy industry faced challenges in 2022 as consumers navigated spending priorities amidst steep inflation and other economic headwinds. Despite this, U.S. toy sales only dipped 0.2% in 2022, despite unit sales falling 4%, a modest decline compared to 14% growth the year prior and 17% growth in 2020.

However, 2023 so far has been marked by an industry pullback. Though inflation has moderated, consumers have continued to limit discretionary spending, with total toy sales through September falling 8%. According to Circana (formerly NPD Group), unit sales have seen a 9% decline, accompanied by a 1% increase in the average selling price. It is worth noting that the three-year CAGR is still up 5%.

U.S. Toy Retail Sales (\$Billion)									
Source: NPD Group; The Toy Association									
Item	2020	2021	2022	% Δ '20-'21	% Δ '21-'22	% of '22 total	YTD23 vs. YTD22 % Growth	3-year CAGR	
Total	\$ 25.7	\$ 29.2	\$ 29.2	14%	0%	100%	-8%	5%	
Outdoor & Sports Toys	\$ 5.4	\$ 5.8	\$ 5.2	9%	-11%	18%	-15%	-3%	
Infant, Toddler, & Preschool	\$ 3.4	\$ 3.8	\$ 3.7	12%	-2%	13%	-10%	1%	
Games & Puzzles	\$ 3.0	\$ 3.5	\$ 3.5	17%	0%	12%	0%	7%	
Dolls	\$ 3.7	\$ 3.8	\$ 3.4	4%	-12%	12%	-16%	-6%	
Building Sets	\$ 2.3	\$ 2.7	\$ 2.9	16%	9%	10%	5%	11%	
Explorative & Other Toys	\$ 1.6	\$ 2.2	\$ 2.6	37%	16%	9%	-14%	16%	
Plush	\$ 1.3	\$ 1.8	\$ 2.3	31%	31%	8%	1%	28%	
Action Figures & Accessories	\$ 1.7	\$ 2.1	\$ 2.2	25%	4%	8%	-15%	7%	
Vehicles	\$ 1.6	\$ 1.7	\$ 1.7	9%	-1%	6%	3%	8%	
Arts & Crafts	\$ 1.2	\$ 1.2	\$ 1.2	4%	0%	4%	-1%	1%	
Youth Electronics	\$ 0.5	\$ 0.5	\$ 0.5	8%	-12%	2%	-11%	-2%	

The chart above tracks the U.S. market size for the total industry from 2020 to 2022, measured by point-of-sales data of retailers participating in NPD Group's Retail Tracking Service. NPD believes its Tracking Service represents 78% of the total U.S. toy market. The data is broken down into toy super-categories (largest to smallest), not by industry or type of store as evaluated by the U.S. Census.

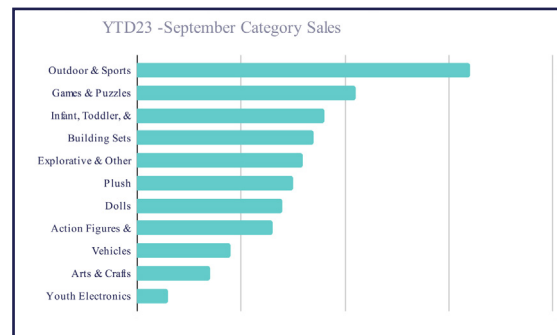
“ AFTER RECORD-HIGH SALES DURING THE PANDEMIC, 2023 IS A PERIOD OF REBALANCE FOR THE TOY INDUSTRY. ”

JULI LENNETT, U.S. TOYS INDUSTRY ADVISOR AT CIRCANA

GROWTH DRIVERS

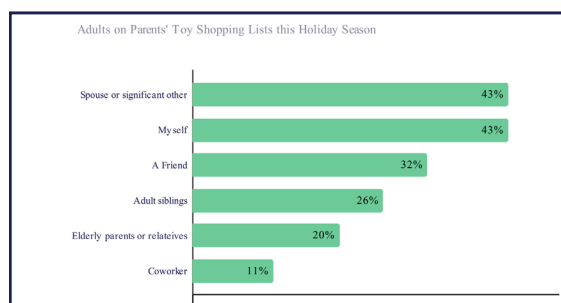
Of the 11 super-categories tracked by NPD, only three have tracked positive in the year-to-date period.

- **Growing:** Building sets (~10% of sales) saw the most growth, up 5%, mainly driven by LEGO Icons. Vehicles followed suit, up 3%, fueled by Hot Wheels, while Plush was up 1%, largely attributable to Pokémon.
- **Flat:** Games & Puzzles and Arts & Crafts have generally tracked with the prior year, remaining flat and falling 1%.
- **Down:** The remaining seven subcategories saw a double-digit decline in sales. Outdoor & Sports Toys continued to be the largest subcategory on a volume basis, representing 20% of toy sales; however, it was also the segment that experienced one of the steepest declines, falling 15% due to reduced sales in playground equipment and water/sand toys coupled with unfavorable weather conditions earlier in the year. Dolls had the highest erosion, plummeting 16% YTD.



25% OF 2022 TOY SALES WERE ATTRIBUTED TO THE “KIDULT” CONSUMER GROUP

Echoing the trends seen in 2021 and 2022, 2023 sales are being fueled by the “kidult” market, referring to anyone over 12 who desires toys reminiscent of their childhood. While they have consistently contributed to the industry over the past decade, spending escalated during the pandemic. In 2022, a quarter of the annual sales were attributed to adults purchasing toys for themselves or other adults. This year, the impact of toys for adults is anticipated to be significant as a recent survey conducted by The Toy Association showed that 89% of parents are actively seeking toys for grownups, with 43% shopping for their spouses this holiday season.

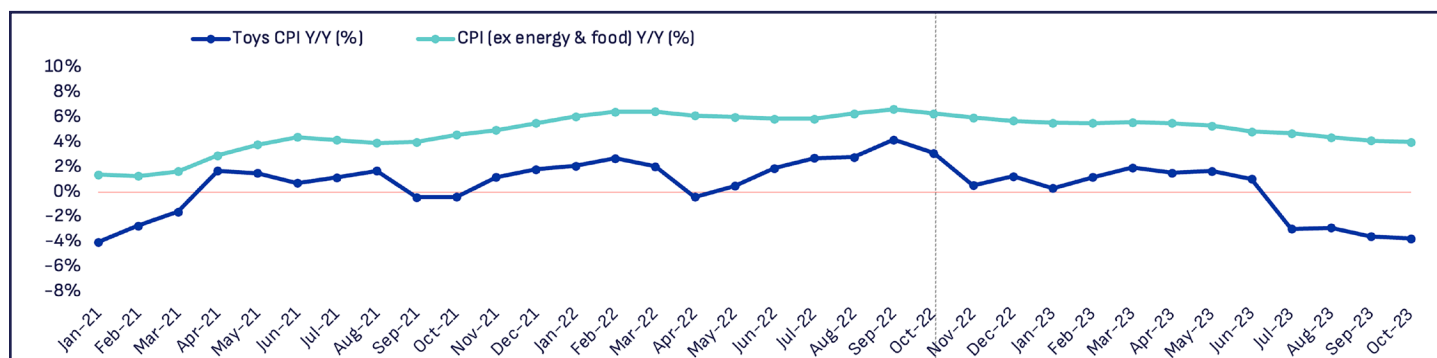


“ THIS GROWING SECTOR WAS REALLY BOOSTED AMID THE PANDEMIC WHEN MORE ADULTS TURNED TO PLAY TO DESTRESS AND COMBAT ISOLATION. EVEN AS THEIR BUDGETS HAVE TIGHTENED SINCE THEN, THEY HAVE CONTINUED TO FIND COMFORT IN THESE PLAY HABITS AND PASTIMES. ”

JENNIFER LYNCH, TOY TRENDS SPECIALIST FOR THE TOY ASSOCIATION

Going beyond product lines, toy companies also continue to create movies in an attempt to boost sales. 2023 saw installments of various toy movies, including Barbie, Dungeons & Dragons: Honor Among Thieves, Transformers: Rise of the Beasts and Trolls Band Together. Given the success of the Barbie movie, which led to a 16% increase in sales during its third quarter, other toy manufacturers are likely to follow. Mattel highlighted it has 14 new toy movies in the works.

INFLATIONARY IMPACT



Inflation slowed in 2023 and has become deflationary for toys after dominating the market narrative in 2021 and 2022. That said, consumers have remained cautious, and there continues to be plenty of uncertainty in the holiday outlook, anticipating that holiday demand will be reliant on discounts and promotional behavior. Although retailers such as Macy's, Walmart and Amazon reported positive outlooks for 4Q earnings, management remains guarded. It recognizes the challenging macroeconomic environment as well as the impact that inflationary pressures could have during the remainder of the year.

“ WE EXPECT CONTINUED UNCERTAINTY IN OUR BUSINESS AND THE GLOBAL ECONOMY DUE TO PRESSURE FROM INFLATION, A CHALLENGING MACRO ENVIRONMENT, GEOPOLITICAL CONDITIONS, SUPPLY CHAIN DISRUPTIONS, VOLATILITY IN EMPLOYMENT TRENDS AND CONSUMER CONFIDENCE. ”

WALMART

**TOY INVENTORY
IMPORTS DOWN
30% YTD**

LOWER STOCKPILES

Retailers have responded to tepid demand by reducing inventory purchases. Unlike the over-buying of 2021 and 2022, which led to significant markdowns, companies are reporting significantly lower inventory levels heading into the holiday season, with toy imports down 30% compared with the year prior and flat compared with pre-pandemic levels in 2019.

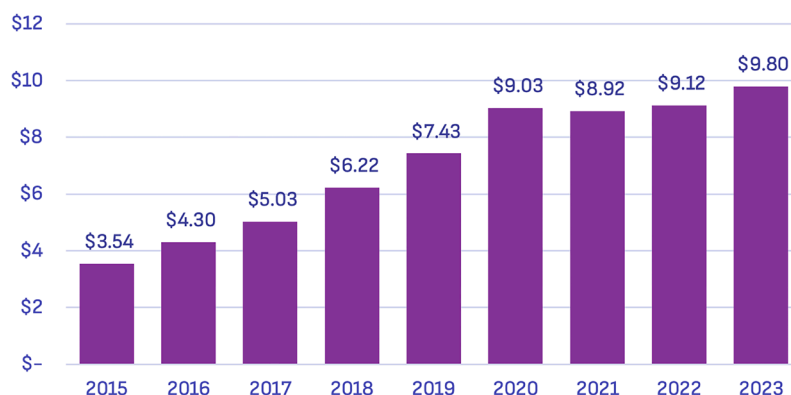
HOLIDAY SEASON OUTLOOK

Despite economic uncertainty leading families to tighten their budgets, parents are expected to continue prioritizing toys and play during the holiday season. While unit sales are down 9% through September, there is a sense of optimism for the crucial holiday period, as retailers are committed to boosting sales through promotions and discounts. In its most recent earnings call, Walmart highlighted strong momentum in toys thus far, expecting a strong January as consumers will react to further clearance items after the holiday. Target similarly aims to generate toy sales during the holiday, with around 67% of toys priced below \$25.

Kicking off the season, Thanksgiving and Black Friday online sales exceeded analysts' expectations. According to Adobe Analytics, online sales for the two days reached \$5.6 billion and \$9.8 billion, respectively. The weekend saw \$10.3 billion in sales, while Cyber Monday drew \$12.4 billion. Together, "Cyber Week" soared 7.8% to \$38 billion. As of November 27, online consumer spending had already surged to nearly \$110 billion, up 7.3% from last year. Looking ahead, Adobe anticipates total spending for the full holiday (November 1 to December 31) to reach \$222 billion, growing 4.8% from last year.

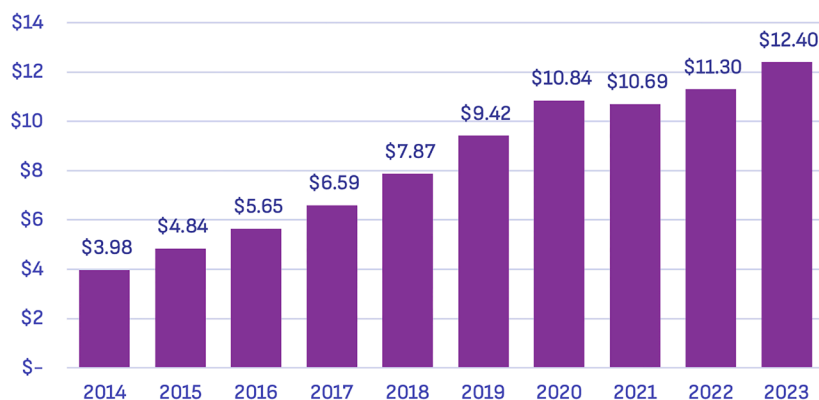
As consumers increasingly favor online shopping, many focus on budget flexibility with the help of "Buy Now Pay Later" (BNPL). On Cyber Monday, BNPL usage saw a record high, contributing \$940 million in online spending, marking a 43% increase from last year. The top-selling products across all retail sectors included Hot Wheels, Mario Kart toys, Xbox Series X, PlayStation 5, Nintendo Switch, Spiderman 2 and Call of Duty: Modern Warfare III, along with items like skincare gift sets, small kitchen appliances, and televisions. Consumers took advantage of significant discounts, with electronics leading at 31%. Although toy discounts, the second highest at 27%, dipped from last year's level of 34%, consumers responded well, driving online toy sales up 140% compared to an average day in October.

Black Friday Online Sales



SOURCE Adobe Analytics

Cyber Monday Sales



SOURCE Adobe Analytics

**TOY SALES UP 140%
DURING CYBER
MONDAY COMPARED
TO AN AVERAGE DAY IN
OCTOBER**







“ HISTORY HAS SHOWN THAT EVEN IN YEARS OF OUTRIGHT RECESSION, PARENTS AND CARING ADULTS DO NOT WANT TO DISAPPOINT THE KIDS IN THEIR LIVES WHEN IT COMES TO HOLIDAY GIFTS. WHAT'S MORE, RETAILERS KNOW THAT TOYS AND PLAY PRODUCTS BRING IN FOOT TRAFFIC AND GENERATE ECOMMERCE VISITS AT THIS VITAL TIME OF YEAR. THE COMING WEEKS WILL BE ESSENTIAL TO IMPROVE ANNUAL RESULTS FOR TOY COMPANIES AND RETAIL ALIKE.

”

STEVE PASIERB, PRESIDENT & CEO OF THE TOY ASSOCIATION

BIG BOX RETAILERS' OUTLOOK/ HOLIDAY PREPARATION

Since opening Toys "R" Us shop-in-shops in all Macy's locations last year, momentum in toys has continued. 2Q23 saw nearly 40% growth compared to the year prior, with management noting a healthy amount of cross-shopping. In November, the Company expanded its Disney collection, featuring toys specifically created for Macy's. Going into the holiday season, the Company released its top toy list, including classic toys such as Barbie, Hot Wheels, Pokémon, Lego and Nerf; prices range from \$12 to \$100.

Company	Guidance	
		<ul style="list-style-type: none"> FY sales up 1.1% at the midpoint Gross margin up 100 bps to 38.4% EBITDA margin up 50 bps at the midpoint
		<ul style="list-style-type: none"> FY sales up between 5.0% and 5.5% Operating income up 7.0% to 7.5%
		<ul style="list-style-type: none"> 4Q sales up between 7% and 12% Operating income between \$7 billion and \$11 billion, up from \$2.70 billion in 4Q22

- Walmart remains optimistic entering the holiday, highlighting a near 36% increase in online toy sales in its most recent quarter. Ahead of the holiday season, the Company aggressively expanded its assortment with 1,000 new toys, including Barbie Malibu House, the Melissa & Doug home and the classic Furby. Its expanded assortment also includes 500 Walmart-exclusive toys.
- Target is taking a cautious stance toward the holiday season as it has reported seven consecutive quarters of declining discretionary sales; discretionary inventory is also down 19% compared to last year. For the holiday, the Company has brought back its nostalgic toy brand FAO Schwarz, with management noting that 25% of all toys offered at stores are Target exclusive. However, management expects to end the quarter with softened sales and a decline in comps.
- Amazon announced that the extended Thanksgiving holiday shopping weekend was its biggest ever, with customers purchasing more than 1 billion items. The Company also announced it would drop new deals daily through Christmas Eve, including brands like Hasbro Toys, Keuring, DEWALT Tools and Sony Headphones.

CONCLUSION

After experiencing record growth fueled by the pandemic, the toy industry hopes that a strong holiday season could soften the blow from an otherwise down year; unfortunately, consumers continue to face several headwinds that continue to pressure spending and holiday cheer. To drive sales, retailers are addressing shoppers' budget constraints through additional promotions and markdowns throughout the season. Meanwhile, consumers increasingly turn to BNPL options to improve their budget flexibility. That said, caution is warranted as we look towards the end of the holiday season, as the spike in toy spending during Cyber Week was likely from a pull forward of consumer spending. Further, if consumers continue tapping into savings, accumulating debt or relying on BNPL to finance holiday shopping, it could leave them with less to spend in the upcoming months. Last, the extent to which discounts successfully drive consumer spending to offset earlier losses remains uncertain. Overall, while the industry is expected to report a robust fourth quarter, it likely will not make a breakeven for the year, with the industry potentially ending down in the double digits.

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