



MARKET SECTOR INSIGHTS OCTOBER 2018

UK Toys and Games Industry

Overview

UK toy sales decreased by 2.8% in 2017 to £3.4 billion. There are a number of factors that have contributed to this dip in the market, including under-performing licenses, the impact of Brexit (particularly last year's impact on Sterling), plus the ever-growing concern of counterfeit toys, according to the British Toy and Hobby Association ("BTHA") and the NPD Group. The announcement, made at the 65th Toy Fair in London, follows three consecutive years of growth and a particularly strong year in 2016 and, despite the small decline, still positions the UK as the largest market in Europe.

Segment Growth

The collectables segment saw a year on year increase of 17% in 2017, a sharp decline from 44% from the previous year. The collectables segment accounted for 9% of the overall value of the market and 19% of all units sold. Other strong sectors in 2017 were doll playsets, preschool figures and action figures.

According to PRNewswire, the United Kingdom toys & games market will grow 16.2% from £3.87 billion in 2017 to £4.49 billion in 2022. Growth will be driven in part by innovation in electrical toys (+28.5% 2017-2022), as millennials who grew up with technology begin having children. At the other end of the market, a return to traditional toys has begun as adults seek to create a more 'wholesome' play-time away from on-screen entertainment. This is largely driven by older parents and grandparents, with 55-64-year olds the largest buyers of arts and crafts, and over-65s buying the most construction toys. Arts and crafts will see 28.3% growth from 2017 to 2022 and construction toys will grow 17.7% for the same period.

Demographics

The report further states that toy purchasing has been relatively consistent across all regions and income bracket. London has the highest penetration of toy sales at 34.5%, and 25-34-year-olds purchase the most toys, with 48.1% of this age group buying toys in 2017. Consumers in the AB and C1 income brackets buy the most toys, with 35.5% and 35.2% purchasing toys, respectively.

Outlook

BTHA member survey results suggest that, despite concerns over Brexit, UK toy makers are positive about the future. The greatest concerns of UK toy makers are the price increases caused by the devaluation of the Sterling; the lack of clarity on Brexit; and anxiety over the uncertainty regarding exporting to, and trade deals with, Europe as the industry's largest export market.

Research firm Euromonitor's June 2017 market forecast predicted that the traditional toys and games category will post stable sales over the next five years leading to a positive outlook for the overall toys and games market.

Economic Climate

Following a lacklustre start to 2018, retail spending bounced back in May as the industry experienced its strongest performance in close to 18 months. The Office of National Statistics ("ONS") reported value and volume growth of 6.1% and 4.4%, respectively when compared with the same month last year, driven by a combination of the sunniest and warmest May on record, two bank holidays and the royal wedding.

On a trailing 12 months basis, sales volume growth has actually declined over the last 15 months, from 4.5% in March 2017, to 1.6% most recently. Whilst sales value growth remained between 4-5% across this period, the differential above volume growth largely reflects the spike in inflation experienced following the EU referendum, where many UK retailers were unable to mitigate the impact of the sharp depreciation in the pound and forced to pass on higher import costs to consumers. Indeed, PantheonMacro commented, "The jump in retail sales in May has all the hallmarks of a weather-related blip, rather than a sustainable pick-up in spending."

Consumer Confidence

Whilst unemployment remains at record low levels, real wages have only just begun to move back into positive territory, house price growth recently dipped to the lowest levels in five years and unsustainable levels of household debt continue to weigh down on consumer confidence. Furthermore, with growing speculation that a rise in interest rates could be waiting around the corner, the UK's

retailers should remain wary that the uptick in spending may yet prove to be short-lived.

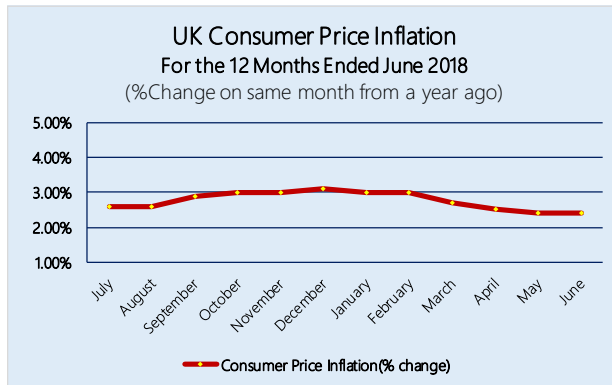


Figure 7. UK consumer price inflation

Online Sales

According to PRNewswire, 36.8% of all UK toy sales were conducted online in 2017. This is expected to increase 6.6% to see online toys & games grow to hold 43.4% of sales in 2022 - equivalent to £1,425.3 million. As online is such a force in the market, brick and mortar retailers must focus on the in-store experience in order to drive footfall and consumer engagement.

A report by another research firm Euromonitor stated, "Internet retailing is expected to continue to increase in importance within the toys and games industry. Within traditional toys and games, major internet retailers like Amazon and Argos took shares from physical retail outlets."

Recent Trends

Licensed Toys

Toy sales across key global markets grew by 4% in the first half of 2018, reported NPD. Across the global markets tracked by NPD, toy industry sales reached \$18.4 billion in the first half of 2018. Traditional play patterns, collectibles, social media and innovation were the trending themes. NPD estimates the industry will grow steadily in the coming years, with growth primarily being driven by the entertainment sector.

Euromonitor released a report in September 2017 on the effects of the media on toy sales in Western Europe. The report stated, "Licensed toys in Western Europe continued to lead traditional toy sales in 2016 as children in the market increasingly own a smartphone and have constant access to entertainment media featuring their favourite licensed characters. Through to 2021, Western Europe is expected to lead developed markets in per capita growth of licensed toy sales, driven by blockbuster films that will be released, as well as benefiting from local licences, which have the ability to spread throughout the region."

Transformers remains one of the larger brands in the Western Europe, along with *Cars*. Euromonitor expects Disney Princess and *Frozen* products to continue to see steady sales and predicts, "*Star Wars* will continue to be a prominent force within the region as every year through to 2020 will see some sort of major motion picture release for the franchise."

Millennials

According to NPD, games and puzzles, collectables, action figures and building sets continue to be increasingly popular with Millennials, as well as with adults aged from 35 to 54 years old. In 2017, adults spent as much as £383 million on toys for themselves, thus the segment grew by 8% over the previous year. The 'kidult' market now amounts to 11% of the total toy sector; a rise of £30 million in value since 2016. NPD further believes that 'kidult' toys could be the next big margin booster for the toys and games industry.

NPD's global toy industry analyst Frederique Tutt stated, "The kidult spending power is not negligible and when buying on impulse or for collection, this consumer might not be as focused on price so that could present some good margin opportunities too. This is in part being driven by younger consumers, Millennials, and also adults with no kids at home. They probably have more time and a disposable income compared to young and not-so-young families."