

SMART PLAY: INNOVATIVE TECH TOYS ARE A HIT WITH STRATEGIC AND FINANCIAL ACQUIRERS



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Playing with toys has always been an essential part of kids' development, but today's kids now have one game-changing thing at their fingertips: technology. This new generation is inundated with tech, causing toymakers to add interactive learning and play elements to classic toys and games. Some examples include Play All Day Elmo, from Hasbro, which features age-appropriate play modes for toddlers and preschoolers, and Hello Barbie, Mattel's classic doll with new abilities that allow her to learn and remember things. The addition of technological elements in toys has helped to fuel recent growth in the industry. According to The NPD Group, U.S. retail sales of toys grew to nearly \$18.1 billion last year, an increase of 4 percent over 2013. Industry growth has attracted both strategic and financial buyers to the sector, with last year's deal volume increasing 20 percent over 2013, while public company valuation multiples remained strong last year.

Moreover, the sector has also seen an emphasis on STEAM (Science, Technology, Engineering, Arts, and Math) toys and juvenile products that focus on helping kids learn basic scientific concepts and promote a lifelong love of learning. STEAM toys are not just science experiment kits; they are more sophisticated products that have valuable educational undertones, yet maintain fun and exciting play patterns for children. This segment of toys includes activity-based books, educational board games that teach language and culture, and building and engineering sets that teach coding and mathematical concepts. Recent merger and acquisition (M&A) activity in the space includes the acquisition of Summit Products by Alex Brands (a portfolio company of Propel Equity Partners) through a liquidation sale in May of last year. Summit's prod-

ucts are centered on providing kids with toys that allow them to learn about the natural sciences using outdoor games.

The Maker Movement, as it is affectionately known, also allows children to interact with technology and use toys to build and create, while developing crucial spatial skills in the process. The construction segment has remained an active segment in the industry highlighted by the high-profile acquisitions of Meccano, which makes the classic Erector Set, by Spin Master, and MEGA Brands, the largest competitor to Lego, by Mattel. In May of last year, Alex Brands acquired CitiBlocs, a line of wooden construction blocks, to expand its presence in the construction space that already included Zoob, a line of movable construction pieces.

A number of other companies in the educational toy space have also been acquisition targets in recent months. In April, Irving Place Capital acquired Bendon, known for producing activities that aid in early childhood development, and in June, Spin Master agreed to purchase Cardinal Industries, one of the oldest producers of games and puzzles in the U.S.

Parents value educational toys that enable children to learn while having fun doing so. These toys have proven staying power in the marketplace and consumers have shown a willingness to pay a higher price for products with intrinsic educational value. We believe there will be considerable M&A activity in this fun, creative sector in the coming year. ■

To learn more about M&A transactions, valuation trends, and other newsworthy items relevant to companies and investors in the toys and giftware space, contact Intrepid Investment Bankers at (310) 478-9000.