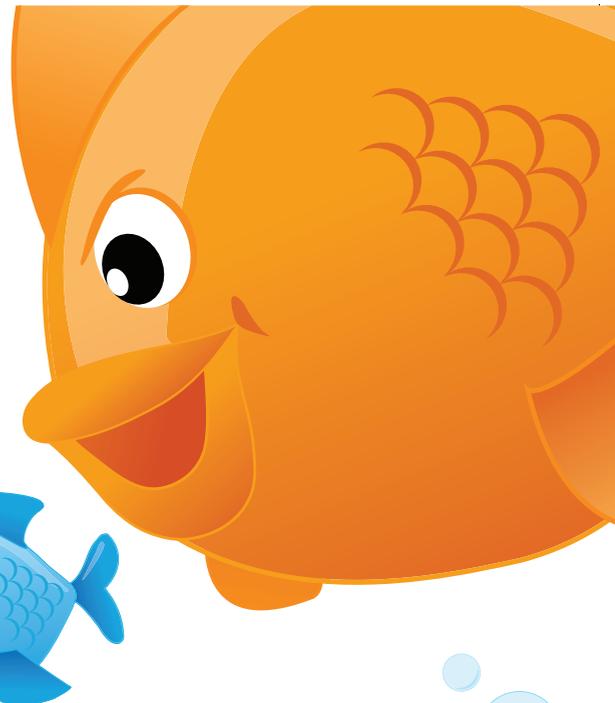


GAME CHANGER

WHY TOY COMPANIES ARE CONSOLIDATING



by **BRIAN LEVIN**, vice president, *Intrepid Investment Bankers*; head of the *Toys & Giftware practice*

TOYMAKERS ARE KNOWN FOR THEIR creativity, innovation, and ability to connect families, but did you know that many toymakers are also family-founded and family-owned? Toy industry giants such as Lego, Hasbro, and Mattel are—or were at one point—family-owned businesses. Each started with a vision and a great deal of entrepreneurial drive, and blossomed into the multi-national corporations that are executing the large mergers and acquisitions (M&A) that we see in the industry today.

TECH TOY CRAZE

The recently rumored Mattel-Hasbro mega-merger would have seismic effects on the toy industry as a whole, but a deal of such magnitude would be nearly impossible to consummate for a variety of reasons, including regulatory and anti-trust concerns. Despite the rumblings, both companies have continued to roll up other smaller players in the industry, turning their focus to “modern toys.” Recently, Mattel acquired Fuhu Inc., a developer of high-technology products for children and families, and Sproutling Inc., a maker of smart technology products for parents and families. These deals show that drones, voice-controlled robots, and app-based toys are gaining market share from traditional physical play products. These innovative toys are providing children with an engaging play experience that teaches them about engineering, coding, and problem-solving.

Other evidence that innovative tech

toys are a driving force in the market is the recent \$72 million acquisition of LeapFrog Enterprises by the world leader in electronic educational toys, VTech Holdings. LeapFrog, once a Wall Street darling reaching a market capitalization of \$2.5 billion at its peak, had recently fallen on hard times due to stiff competition in the electronic learning devices segment and less than stellar product launches. The acquisition will help VTech leverage the North American market where LeapFrog has consumer recognition. It will also help VTech offer a broader range of children’s educational technology toys, such as gaming consoles, smartwatches, and tablets. We expect to continue to see a large M&A appetite for these modern toy companies for the foreseeable future.

Other recent noteworthy acquisitions of iconic businesses and brands include Cardinal Industries, a leading maker of puzzles and games, and the Etch A Sketch and Doodle Sketch brands by Spin Master. In addition, Ravensburger acquired BRIO, a manufacturer of wooden train sets.

THE RISE OF M&A

These acquisitions reflect two strong trends in the market: First, tech toys are attracting strong interest in the educational segment, and second, deal volume in 2015 increased 25 percent compared to 2014, with public company valuation multiples in 2015 exceeding the industry average during the prior five-year period. We believe that M&A activity will continue this year as toymakers

continue to consolidate in order to compete.

ACQUISITION PRESSURE

When evaluating acquisition opportunities, strategic players are looking for both growth and complementary expertise. Strong public market valuations have put pressure on companies to deliver growth, and many are seeking acquisitions to deliver that growth. We are seeing buyers that are looking to acquire companies in specific niches that provide them access to new markets, areas of expertise, or the ability to penetrate deeper into existing channels. In addition, key retail partners are increasingly looking to reduce the number of companies they are buying from, which, in turn, forces further consolidation. Some independents fear that they may be left behind if they do not pursue a transaction. With acquisition pressure mounting from both buyers and sellers, we expect the toy industry to remain an active playground for M&A in 2016. »



Brian Levin has nearly a decade of experience focusing on mergers and acquisitions and leverage finance. His selected transaction experience includes the sale of substantially all of Wild Planet Entertainment Inc.’s assets to Spin Master Ltd. 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.