

Your Toy Association: Reflections on 2017, an Anticipatory 2018

Dear members,

As we enter 2018, I reflect on a year of continued achievement for your companies and the business of toys, yet one where disruption significantly increased, retail and consumer trends continued seismic shifts, uncertainty hit key players, and the pace of everything quickened further. In this new year, it will be important for us to help our members distinguish between larger business and consumer trends that *will* happen and soft trends that *might* happen. Clearly, the retail world is at a point of inflection where the risks and failures receive significant press, but importantly, there are also great opportunities and strength to leverage. IP protection and the surge in counterfeits are serious threats we must tackle, not simply because of the financial damage caused to innovative companies, but because counterfeits also risk consumer safety, as they're not subject to the same rigorous requirements and testing as all other toys.

Fortunately, adults will always love the children in their lives, and will always want them to be happy and to enjoy the developmental benefits of play – facts that bode well for toymakers' collective future. I'll detail more of our 2018 focus and plans in my next letter. For now, I hope you will continue on, dear reader, as I recount several key accomplishments and points of progress in your Association's 2017 work to protect and promote the toy industry.

EXTERNAL AFFAIRS

Our External Affairs function led by Ed Desmond is divided among Federal, State, International, and Technical/Standards activity. Clearly, these combined efforts safeguard members' ability to do business and are among the top values of being a member of The Toy Association. The breadth and depth of this work on an annual basis would easily require dozens of pages to catalogue. So, here are some of the most important and influential points of progress:

Federal Affairs

Arguably, one of the most important accomplishments on behalf of our broad member base was the work of our talented and passionate External Affairs team within the Americans for Affordable Products coalition. Together, we successfully influenced the tax reform debate so that importers would not be negatively impacted by a Border Adjustment Tax. Our team also served on three Customs and Border Protection (CBP) Advisory Committee Working Groups on intellectual property, e-commerce and de minimis shipments, and was invited to participate on the CBP Border Interagency Executive Committee, External Advisory Committee.

As a result of the annual External Affairs Strategy Meeting held with member companies, we started an Intellectual Property Committee, which currently has over 50 members. We are bringing companies together to work on addressing the issue of IP infringing toys sold on e-commerce platforms. Related, we grew relationships with e-commerce platforms like Alibaba, Amazon, eBay and Facebook. This work extended to a congressional briefing on the challenges toy companies face with combating counterfeit toys sold online. Finally, we raised the toy industry's visibility in IP coalitions like the International Trademark Association (INTA) and the International Anti-Counterfeiting Coalition (IACC).

In 2017, the voices of our members were heard on Capitol Hill and in the halls of key federal agencies. For example, in May, we held the Association's most successful ever DC Fly-In for company executives. High-level officials including EPA Administrator Scott Pruitt, Commerce Secretary Wilbur Ross, and CBP Executive Assistant Commissioner Brenda Smith made presentations and spoke at length with members. Finally, we fanned out across the Hill for direct meetings with over 50 Senate offices.

Federal work to represent the interests of the toy community occurs every day. Other highlights include the development of new advocacy tools on connected toys; securing long overdue testing exemptions for certain phthalates from several plastics; successfully keeping toys from drone regulations despite efforts from Congress and the Federal Aviation Administration to impose technology requirements on toys; clearing over 25 members' containers at ports; submitting 20 sets of formal comments on key industry issues to the federal government; and joining with CPSC and Kids in Danger on the agency's annual holiday toy press release.

State Affairs

Risks, regulations, and legislation in 50 state capitols mean there is never rest for our State Affairs team. They monitored 18 priority issue areas to identify problematic legislation; tackled over 450 bills in 40 states; acted on over 100 bills in 22 states; defeated or amended all harmful legislation; and managed legislative aspects of successful litigation against toxic toy bills in two New York counties.

During active legislative sessions, we testified at legislative hearings in seven states; participated in regulatory hearings and meetings in five states; drafted legislative amendments in eight states to address key issues; attended over 25 legislative policy conferences and events; and connected with over 100 key state policymakers including attorneys general and governors.

Extending our reach and relationships meant building new coalitions to support advocacy while we strived to strengthen relationships with key partners like the American Specialty Toy Retailing Association (ASTRA). Meanwhile, member engagement in all our state work resulted in 18 State Government Affairs Committee (SGAC) update calls, and 12 state or issue-specific calls with SGAC members.

International Affairs

While we're thought of as The Toy Association for the United States, our team travels the world to represent the industry. In 2017, we advocated on over 25 regulatory issues around the world! The range of issues members face also required successfully raising visibility of toy issues in the World Trade Organization.

Our international work can also get very local. For example, The Toy Association coordinated letters from international toy trade associations to push back on new toy regulations in India that essentially function as barriers to trade. We successfully coordinated international advocacy on other issues in countries such as Kazakhstan, Columbia, Turkey, Indonesia, and Nepal, among others. Frequently, this work is in close collaboration with Toy Industries of Europe (TIE), Southeast Asia Toy Association (SEATA), our partners at the Canadian Toy Association (CTA), and individual country toy associations in Japan, India, Germany, France, and elsewhere.

Technical Affairs/Standards

Our members know all too well that there is no shortage of regulations and new hurdles to pass every year. Here too, The Toy Association never rests. A 2017 highlight was The Toy Association successfully securing a spot on EPA's Toxic Substances Control Act (TSCA) Science Advisory Chemical Committee, with Al Kaufman, senior vice president of technical affairs, serving as our representative. Beyond the Committee, we influenced EPA's final TSCA rules on chemical regulations through comments and direct engagement with the Agency.

Our team successfully secured an enforcement discretion letter from CPSC on the projectiles portion of ASTM F963-16 and testified before CPSC to emphasize toy industry budget priorities for the agency for 2018 and 2019. A lasting accomplishment on behalf of all toymakers occurred when The Toy Association successfully led completion of the revised ASTM F963-17 toy standard.

Internationally, we monitored several International Standards Organization (ISO) and International Electrotechnical Commission (IEC) standards to assure alignment, including membership in U.S. Technical Advisory Group to IEC TC61, electrical appliances (which includes hoverboards). We successfully hosted and advocated for significant alignment between numerous ASTM F963 and ISO 8124 toy safety requirements at the San Diego ISO TC 181 meetings. Toy Association staff participated in buyer training sessions led by U.S., Australian, and European officials in China and Vietnam and have been invited to do this again in March 2018.

Last and certainly not least, direct technical service to our members included providing technical, manufacturing, and logistics support to members and responding to 200+ queries. In 2017, we provided 120+ formal and informal interpretations of ASTM F963.

MEETINGS & EVENTS

Hosting go-to-market events and meetings/conferences is an essential role of The Toy Association on behalf of our members. Our trade objective is essentially to “help more members sell more product, more often, to more customers in more places around the world.” Our meeting objective is to help our members learn, see new opportunity, experience fresh perspectives, and be more able to innovate in their businesses. The team led by Marian Bossard is one of the finest in any industry, while their passion is clearly toys and toy people!

February’s annual North American International Toy Fair set a new record, with 444,309 net square feet of exhibit space. Our new, dedicated first-timer hall was a great success as we were able to bring a juried crop of newcomers to the attention of both the media and potential retail customers. We hosted 10,276 buyers representing 22 of the top 25 toy sellers. With 1,129 exhibiting companies representing 32 countries, there is no question that New York Toy Fair remains an essential stop on the global toy circuit.

ShopToys365.com continues to gain traction with adoption by more and more of the brands that buyers want to see. At the same time, the platform is steadily increasing the opportunity to sell to retail entities from all over the world, many of whom do not attend our U.S.-based go-to-market events. This creates a year-round selling opportunity for our members and creates a viable pool of prospects for Toy Fair and Fall Toy Preview.

Meanwhile, Fall Toy Preview 2017 served more than 350 lines all anxious to bring their new product to the attention of key retail partners. We were successful in attracting buyers from Walmart, Target, Toys“R”Us, Amazon, and many mid-major outlets. Close attention continues to be paid to the de-centralized activity around the country which begins slowly in the summer and peaks during September and early October.

The Toy Association’s venture into providing our members with a premier direct-to-consumer show combined with influential media coverage in the New York market can be found in the form of Play Fair. Play Fair 2017 ran November 4 to 5, with a media preview night hosted on November 3. This year’s event scored significantly higher among families in attendance with an impressive +45.5 net promoter score. Exhibitors were busy throughout the weekend and happily exhausted when it was all over. Play Fair 2017 ran with key industry brands Hasbro, Toys“R”Us, Nickelodeon, Spin Master, Cartoon Network and many others creating memorable and shareable experiences for kids and the grown-ups in their lives. The next iteration of Play Fair is targeted for November 3 to 4, 2018.

While PlayCon is now a biennial industry conference set for May 8 to 9, 2018 in San Francisco, planning continued with urgency in 2017. As I write this, there are already 11 major speakers booked for the conference! Planning for 2018 occurs with the support of the PlayCon Leadership Team led by Jane Ritson-Parsons of Hasbro. The energy and vibe of San Francisco will be a phenomenal new venue for PlayCon while the content will be superb, and certain to benefit team members from managers and directors to C-suite executives across your organization.

MEMBERSHIP

It all comes down to love. As they say, “love all serve all.” We love our members and we love the business of toys. Your Association’s membership team led by Ken Ebeling has spent the past year challenging assumptions and working our new strategic plan so that in the coming years we can take service and member value to heights never before achieved by the Association.

Membership in The Toy Association remains at an all-time high with more than 950 members. Last year, revenue from key new members and growth increased, allowing us to invest more in programs and services that deliver value to all. This was the ninth consecutive year where membership growth and responsible fiscal management meant there was no dues increase. Meanwhile, we’re getting smarter and faster with new database software programs that have increased efficiency and communication with members, making renewals and doing business with the Association much smoother and easier.

One important development was responding to the membership interest shown by retailers with the introduction of a new independent retailer category inviting independent toy stores to join the Association at a much more reasonable price point. We hope in the years to come this will remove a barrier to participation.

We’re also strengthening the Knowledge Network. In the research area, 40 reports are now available on a variety of industry topics, while tracking shows these were accessed by over 800 members. New 2017 research reports include: the Financial Operating and Benchmarking Study; white papers on local-based media programs and trademarking; global market entry research reports on France and Germany; five new Trend Hunter reports; and webinars on: insights into the U.S. toy marketplace, recalls in a global society, market expansion into India, understanding child development, and complying with regulations for connected toys.

In the area of thought leadership, we introduced a new “White Paper” resource center. The Toy Association is now publishing exclusive and informative white papers written by our skilled staff and third-party experts. We continue to grow our educational offerings, adding 15 new webinars in 2017 and a total of 37 webinars now available to members on-demand.

Canadian Toy Association

The Toy Association’s ongoing support for CTA is imperative to the overall health of the North American toy community. Ken Ebling and Toy Association board member William To, president at VTech Electronics North America, are the primary liaisons with CTA. Very productive work was done in 2017 in Ottawa and with Health Canada to represent the interests of manufacturers. Efforts also continue to bring a greater level of harmonization in toy standards between the U.S. and Canada.

Elsewhere, CTA hosted a packed crowd at their 3rd Annual Great Canadian Play Date reception at New York Toy Fair. Their Hot Toys for the Summer event partnered with a Toronto-area public schools to enhance the message that play has important learning outcomes. Through its Toys for the North fundraising initiative, CTA met its donation goals for 2017, as thousands of children in Canada’s remote northern communities received new toys. CTA continues to partner with the Royal Canadian Mounted Police (RCMP), RCMP Veterans, Thomson Terminals, and the Canadian Armed Forces on this initiative.

MARKETING COMMUNICATIONS

The Toy Association’s work in the communications world is as diverse and varied as anything we do. From strategic messaging, marketing programs, the innovative *Genius of Play* initiative, safety advocacy, supporting external affairs work, and constantly reinforcing a positive public image of the toy industry, Ken Seiter and his high-energy team certainly have your back.

We've been especially proactive and, when needed, aggressive on communicating our members' steadfast commitment to product safety and helping families keep their children safe at play. The team now does speaking engagements on safety at consumer and influencer events across the nation, maintains digital influencer campaigns on safety, and holds Satellite Media Tours of local television stations as a way of sharing our messages through third parties. While these year-round efforts have served to depress total media coverage of NGO group annual holiday "dangerous toy lists," we've also successfully inserted valuable industry perspective into the stories that do run. Our spokespeople or messaging was included in 63 percent of total WATCH coverage and included in 20 percent total PIRG coverage. The Association's www.PlaySafe.org safety website has grown to be a trusted source of information for both media and consumers alike.

In the toy trends arena, we saw significant expanded reach in 2017. We're now working with Prodigy Works to develop futurist insights, as well as establishing benchmarks to grow trend coverage for 2018. The team's work in delivering broadcast TV product segments in markets throughout the country continues (including in San Francisco, Chicago, Los Angeles, Washington, DC, Salt Lake City, Seattle, Charlotte, Las Vegas and Detroit among other markets), providing exposure for 74 unique products from 57 of our members. Through print publicity efforts, we've provided 75 companies exposure for 111 unique products in 53 domestic and 124 international trade articles.

The spring launch of The Toy Association's new name, logo, branding materials, mobile-first website and digital platforms as well as the redesign of *Toy News Tuesday* were all highly successful while also garnering a series of articles and events that highlighted your Association and its many capabilities. We participated in sponsorships leveraging the new brand at Licensing Expo via the LIMA Awards event, the Licensing Expo opening night party, ASTRA Marketplace, Fall Toy Preview, ChiTag and Sweet Suite. We hosted a summer party to launch the new brand and office space at 1375 Broadway, where more than 100 media, members, influencers, industry partners, and others enjoyed the opportunity to see our many plans in action.

The Genius of Play initiative continues its meteoric growth and consumer influence, delivering 1.3 billion total impressions (206 percent of goal), and 9.9 million direct interactions (128 percent of goal) in 2017. We launched the first-ever television PSA campaign for The Genius of Play, quickly gaining more than 225 million impressions and 25,000 airings receiving \$4.7 million in donated media value. Importantly, there were core high-impact airings on CNN, FOX, ABC, and CBS and in top markets including New York, Boston, and Los Angeles.

The Genius of Play also expanded to serve the Hispanic audience with a new acculturated website and its own Spanish-language PSA campaign that has already gained 226 million impressions and \$1.6 million in donated media value. We supported the new website with a bilingual multi-media press release that delivered 465 media million impressions.

The credibility of The Genius of Play strengthened via expert panels including one at the Children's Museum of Manhattan that resulted in an expert white paper which generated 38 million organic impressions and a feature article in *Huffpost*. The team reached a new audience at the International Play Association (IPA) Triennial Conference where they shared The Genius of Play with a worldwide community of play advocates. Outreach to U.S. educators saw over 3,500 teachers participate in the #PledgetoPlay promotion while thought-leader articles advocating for play-based learning reached 50,000 school principals and curriculum directors, and Genius of Play resources for teachers were delivered to over 42,000 members of the National Association for the Education of Young Children.

The Toy of the Year (TOTY) awards were further strengthened in preparation for 2018 with new and refined categories, revamped judging processes, and by securing an auditor to provide third-party validation to the

voting process. Public voting for the TOTYs on ToyAwards.org has surged beyond any previous record thanks to outreach in the media and feature broadcast TV segments in several major markets. Beyond traditional media, new partnerships were forged with online influencers, including YouTube toy channels like That YouTube3 Family and Action Figure Insider, garnering more than 200,000 media impressions and over 5 million social impressions in the closing weeks of 2017.

THE TOY FOUNDATION

Yes, he used a slightly different name. The Toy Industry Foundation announced their own re-branding in early in 2018. The Foundation is now known as "The Toy Foundation: Delivering Joy to Children In Need." Under the direction of Jean Butler, the Foundation continued its record of positive social impact and directly helping children in need last year.

Your participation and donations were deeply appreciated! The Foundation collected \$15 million in Toy Bank donations while serving 1.1 million children in need during 2017. They also enjoyed record-breaking trade show collections, receiving \$847,000 in toys from The Toy Association's trade shows vs. \$728,000 in toys in 2016 – a 16 percent increase. More than \$1 million in cash fundraising was achieved, which helps to fund programs for kids in need. In a year of significant natural disasters, the Foundation responded to disaster relief calls for help by distributing 191,248 toys to families suffering in the aftermath.

Events that both help kids and meaningfully engage people working in the toy industry were again a highlight as the Foundation launched its third *Play Your Part* event – this time in Boston – and engaged 22 toy companies and 75 employee volunteers, and distributed 7,500 toys to foster children in the states of Massachusetts, Rhode Island, and New Jersey.

The future is bright thanks to an innovative new initiative! The Toy Foundation and Nemours launched a significant evidence-based program to first study the role of play on trauma-informed pediatric care, and then to build interactive play kits based on this research, for use in children's hospital across the country.

FINANCE & ADMINISTRATION

One of the most sacred commitments an Association must make to its members is to be a responsible steward of the reputation, resources, and assets of the organization. Your association is blessed to have Paul Vitale leading our Finance team. Clean audits are our standard, but it's the fine detail work that happens all year round that is a hallmark of The Toy Association.

As mentioned, we successfully completed the design and build-out of the Association's new headquarters at 1375 Broadway in the heart of New York City. It is a bright, refreshing, open space environment designed with toyetic touches and the toy industry in mind – please come by and visit, book a member office when you're in town, or hold a business meeting in one of our conference rooms. These are *your* offices as well.

The Credit Interchange program held a successful summer conference that included a tour of the Toys"R"Us distribution center in Flanders, NJ and a highly-informative tour of customs and other operations at the Port of Newark. This was followed up by obtaining a commitment from Amazon to host our 2018 summer business conference which will include a tour of Amazon's Kent, WA fulfillment center. The Credit Interchange has also played a key role in delivering important information to members during the ongoing reorganization of Toys"R"Us. The Association hosted a members-only conference call when the news broke, hosted a bankruptcy information webinar, has participated in creditors' meetings, issued special alerts to manufacturing members, and maintains a special dedicated section on our website with periodic updates so that members may have the latest information readily available.

Our Finance team also keeps up with the times and evolving best practices. The team completed conversion of the Association and Foundation general ledger charts of accounts to strengthen the use of technology and further improve our already excellent recording keeping. Our entire senior team worked with the Executive

Committee and Board of Directors to finalize and approve the 2018 budget which includes strategic investments intended to enhance and add to member benefits and value. An RFP to review independent auditors resulted in a change in the Association's auditors to a firm specializing in associations and foundations, with the added benefit of combined savings of approximately \$20,000 for the Association and Foundation. On the HR front, new services and insurance providers will generate an estimated annual savings of at least \$70,000.

I hope these 2017 highlights provided useful insight into how we invest our days working on your behalf. As you know, winter is no quiet time for toys. As I finish this year-end summary, part of our team is headed to the Consumer Electronics Show to host panels on toys, technology, and the value of play. Others, like me, are on flights to Hong Kong to address regulatory issues and meet with members in their showrooms or at the Hong Kong Toy Fair. Other staff are heading to state capitols and Capitol Hill as legislative sessions begin and lawmakers gear-up for a new year. Meanwhile, final preparations for a spectacular New York Toy Fair 2018 are at a fever pace while all the other essential functions of your Association continue.

It remains an honor and our pleasure to serve your needs. Here's to a successful and prosperous 2018 for your businesses!

Our good wishes always,

A handwritten signature in black ink, appearing to read 'Steve Pasierb', written in a cursive style.

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