



# TOYS

## CURRENT TRENDS

- COVID-19 pandemic-driven demand continued in 2021, with toy, game and hobby stores' sales up 39% over 2020.
- Toys 'R' Us made a comeback in 2021 while Target, Walmart and Amazon continued to dominate in market share.
- Imaginative and interactive toys generated the most growth.
- Manufacturers have doubled down on sustainability initiatives in the industry.
- While the toy sector is highly seasonal, rising fuel and food prices resulting from ongoing inflation in the U.S. may put pressure on sales in the near term.

## PROJECTED VALUES (12-MONTH OUTLOOK)



## APPROXIMATE NET RECOVERY ON COST

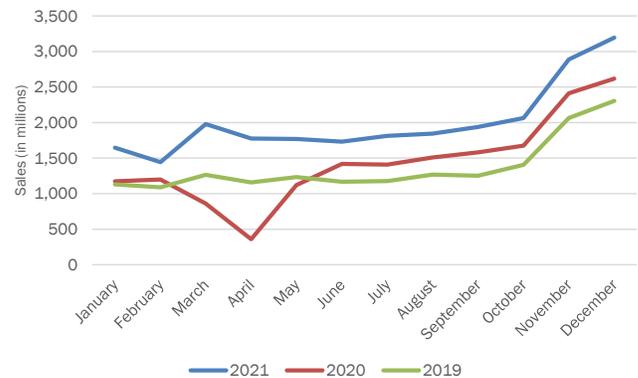
**80%-90%**

high season

**65%-75%**

low season

## SALES TRENDS - U.S. TOY, GAME & HOBBY STORES



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**COVID-19 PANDEMIC-DRIVEN DEMAND CONTINUES:** The toy industry's strong performance in 2020 continued in 2021, largely driven by increased time spent at home because of the ongoing pandemic. Aided by government stimulus checks and the Child Tax Credit, year-over-year dollar sales increased 13%, or \$3.2 billion, from 2020, according to research firm NPD Group.

Unit sales and average selling price increased 8% and 4%, respectively, during the same period. The top brands of 2021 included Pokémon, Barbie, Star Wars, L.O.L. Surprise!, Fisher-Price, Marvel Universe, Nerf, LEGO and Little Tikes. Outdoor and sports toys remained the largest category with \$5.9 billion in sales in 2021, while explorative and other toys had the largest dollar gain with an increase of \$557 million. The industry benefited from fewer promotions, less price sensitivity and consumer trading up to higher-priced products in 2021, according to The NPD Group.

Toy giant Mattel had a strong 2021 with net sales up 10% compared with 2020. Hasbro reported similar gains with revenue up 17% to \$6.42 billion and net earnings up 93% to \$428.7 million. Toy companies found creative ways to connect with consumers to make the holiday shopping experience easier amid continued pandemic-related concerns. For example, Hasbro hosted its first virtual livestreamed toy event on a microsite and the brand's social media channels ahead of the 2021 holiday season. Viewers could browse and purchase the company's toys and games directly while watching product demonstrations. Livestream shopping events like these have grown in popularity over the past few years, further boosted by ongoing pandemic precautions, according to digital news source Marketing Dive.

**BATTLE FOR MARKET SHARE:** After closing all U.S. stores in 2018, iconic toy company Toys 'R' Us is making a comeback under the new ownership of brand management firm WHP Global, which acquired a controlling interest in the company in March 2021. Toys 'R' Us opened a two-story flagship store inside New Jersey's American Dream megamall in December 2021 and launched an online store in partnership with Macy's ahead of the holiday season. Additionally, Macy's expects to add Toys 'R' Us shop in shops in more than 400 of its U.S. stores in 2022.

Leading retailers Amazon, Walmart and Target continue to dominate the toy market. Walmart performed well in 2021 finishing the year with a 6.4% increase in comp stores sales in the U.S, on top of an 8.7% gain in 2020. The company's e-commerce sales increased 1% for the fourth quarter of 2021 and 70% on a two-year stack. Although Walmart's holiday season foot traffic dropped 0.1% from 2019, according to Placer.ai, the big-box giant accounted for 25.4%, or \$20.4 billion, of all orders purchased online and picked up in stores in 2021, a volume reflective of pandemic-related shopping habits.

Target's 2021 holiday season foot traffic increased 13% year over year and 6.2% from 2019. Sales for the first half of 2021 rose 19.8% year over year, while comparable toy sales increased approximately 40% in the first quarter and 20% in the second quarter. Store comparable sales rose about 10% in the third quarter, while digital comparable sales grew 29%, according to the company's financial reports. Target added over 160

## The Expert: Becky Goldfarb



Bringing over 20 years of experience in the disposition and valuation of retail and consumer products, Becky Goldfarb oversees all aspects of retail asset valuations for Gordon Brothers. Prior to joining the valuations practice, Becky was responsible for the financial analysis of retail dispositions across all industry sectors for the firm. Read her full bio [here](#).

Disney shops inside its stores ahead of the holiday season, expanding its brand visibility. Additionally, the retailer is working with children's book author Christian Robinson to create home goods, apparel and books for its kid's category. Amazon's 2021 net sales increased 22% to \$469.8 billion year over year. The e-commerce giant's holiday season generated a 324% increase for its toys and games category. Amazon released its biggest annual "Amazon Toys We Love List" yet in September 2021, which featured over 155 items from brands including Barbie, Fisher-Price, LEGO, Little Tikes, NERF and Play-Doh.

Major retailers kicked off the holiday season early by releasing their toy lists by late September. Both Kohl's and GameStop released a holiday list in October, complete with designated toy shops. In 2021, retailers including Kohl's, GameStop, BJ's and Costco competed with Amazon, Walmart and Target for market share. Macy's partnership with Toys 'R' Us, experiential retailers like Camp, Inc., and value-priced chains like Dollar Tree, Five Below, Ollie's Bargain Market and Citi Trends increased competition.

**INTERACTIVITY AND SUSTAINABILITY ARE TRENDING:** Explorative and interactive toys experienced the most growth in 2021, increasing 33% and 24%, respectively, over 2020. Top holiday toys from Amazon, Target and Walmart included the Crayola Light-Up Tracing Pad, Magna-Tiles kits, the Insect Lore Butterfly Garden kit, and LeapFrog's interactive 100 Animals Book. Additionally, retro toys like Lite Brite, Tamagotchi and marble sets made a comeback during the 2021 holiday season.

Top toy brands are still focused on sustainability with LEGO, Hasbro and Mattel continuing their efforts to become 100% sustainable by 2030. LEGO uses plant-based plastic for certain products, including its LEGO Treehouse set, and plans to make fully sustainable packaging by 2025. In 2019, Hasbro announced it would phase out plastic packaging by the end of 2022. In 2020, Mattel introduced new sustainable product lines, including Mega Blocks manufactured from bio-based resins and a version of its Fisher-Price Rock-A-Stack made of sugar cane plastic. The company also exceeded its goal to achieve and maintain 95% recycled materials for packaging in 2020.

Smaller and newer brands like Eco-Kids, Green Toys, Legler, Le Toy Van, PlanToys and Tegu are producing environmentally conscious toys. Rising raw material costs for toys have made sustainable materials more desirable. The U.S. producer price index for plastic materials and resins hit a five-year high in October 2021.

**VALUATION OUTLOOK:** Gordon Brothers believes appraisal values should remain relatively stable for the toy industry given the retail sectors ongoing momentum from the pandemic. It is likely the digital sales share for major retailers like Target and Walmart will remain strong as consumers have become accustomed to shopping online, via delivery or BOPIS, for convenience.

While the toy industry is highly seasonal, rising fuel and food prices resulting from inflation in the U.S. may put pressure on sales in the near term. The Conference Board's Consumer Confidence Index® fell slightly in February 2022 to 110.5, from 111.1 in January. However, the Board's Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, increased slightly to 145.1 in February 2022 from 144.5 in January, indicating consumer sentiment is relatively stable for the time being.

Should consumer confidence drop further, it remains to be seen how the retail industry may perform for the 2022 holiday season. To the extent economic uncertainty is still pressuring domestic and international markets heading into the fourth quarter, net recovery values would need to be reassessed based on current sales volume and inventory levels.

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