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King of the Ring

Hot Wrestling Toys Turn Jakks Pacific Into a Winner

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If the toy industry were a big-time wrestling match, Malibu-based toy developer and distributor Jakks Pacific Inc. would be an undisputed underdog to the terrible, towering tag team of Mattel Inc. and Hasbro Inc.

With only \$65.8 million in market capital, 3-year-old Jakks can't field the variety of games, gadgets and dolls offered by Mattel and Hasbro, worth \$11.6 billion and \$4.9 billion, respectively.

But if the recent second quarter had been a round of wrestling, Jakks would have pulled the financial equivalent of a body slam on the world's two largest toy makers, largely because of the success of its popular line of action figures patterned after the hulking, theatrical combatants of the World Wrestling Federation, or WWF.

Mattel and Hasbro both posted at least a 20% drop in earnings in their second quarter, while Jakks logged a 40% gain off record quarterly revenue of \$1.6 million, half of which came from sales of the snarling, grimacing dolls.

Mattel and Hasbro have blamed most of their earnings woes on cutbacks in orders from the nation's top toy retailer, Toys R Us Inc., which in the last several months has been trimming inventory to cut costs and fend off competition from its main rival, Wal-Mart Stores Inc. (In fact, Toys R Us on Monday posted a 57% drop in second-quarter earnings. See story, D3.)

Jakks, however, largely escaped the cutbacks because its WWF line is among the top five best-selling action figures at the retail chain's 700 domestic stores, said Michael Tabakin, director of entertainment marketing and licensing for Toy R Us.

"If Jakks didn't have a hot product, they'd be experiencing the same issues [as Mattel and Hasbro]," Tabakin said. "When we find something that is very, very hot, like WWF, we are going to buy the heck out of it because we think it is good for the business."

Investors have shown their approval of Jakks' performance by steadily pushing up the price of its shares on the Nasdaq Stock Market. The company hit its 52-

week high of \$13.44 on July 21, almost doubling its low of \$6.88 recorded a year earlier. On Monday, shares closed at \$10.75, down 50 cents.

Action figures typically are 2-inch to foot-high plastic dolls geared largely to boys and frequently based on characters from cartoons and blockbuster action adventure movies. In Jakks' case, its figures are spun off WWF's larger-than-life "gladi-actors" who grab and heave opponents across the nation's TV screens each week in staged wrestling matches.

Wrestling shows, such as WWF's Saturday morning "Livewire," have ranked among the most popular programs on cable television. And where viewers are, consumers usually are not far behind.

Jakks has "caught the wave very nicely," Tabakin said.

David Keiter, an analyst with Jakks' leading stock underwriter, Joseph Charles & Associates, said the WWF dolls have accounted for most of the company's triple-digit sales growth over the last two years. The line also had a major hand in propelling Jakks into the ranks of California's top 15 fastest-growing companies last year. Total 1997 sales of \$41.9 million represented a jump of nearly 250% from the year before, and Keiter said the WWF figures accounted for more than half of that.

Jakks has turned much of that revenue into profit, as much as 29 cents a share in one quarter, largely by keeping costs down. With a lean work force of 54 employees, Jakks contracts with manufacturers in Asia to make and store its toy lines.

The company's quarterly report for the period ended June 30 marked its sixth straight quarter of growth over comparable periods. Jakks posted net income of \$958,000, 14 cents per diluted share, compared with \$457,000, or 10 cents, in the year-earlier period.

Jakks was founded in 1995 by Chief Executive Jack Friedman with his longtime friend Stephen Berman, Jakks' president and chief operating officer.

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That same year, Jakks signed a licensing agreement with Titan Sports Inc., the parent company of WWF, giving Jakks exclusive rights to develop and market a line of action figures based on the federation's popular wrestling personalities, including Stone Cold Steve Austin and the Undertaker.

"The WWF has been to us what GI Joe was to Hasbro," Berman said. "That's how Hasbro started their growth. GI Joe allowed them to acquire other brands and other companies. Our WWF is allowing Jakks to do the same."

Indeed, last year Jakks unveiled an ambitious expansion plan of acquisitions and licensing agreements to diversify its offerings and take some of the sales burden off the brawny shoulders of its WWF line.

Last year, the company purchased Road Champs Inc. and its line of miniature die-cast cars. Then in the fall, Jakks bought the Remco die-cast vehicle brand and Child Guidance toddler development toy brand from Azrak-Hamway International Inc.

In the last few months, Jakks has also struck licensing agreements with Bass Anglers Sportsman Society Inc. to create a line of fishing-themed toys, and with Petersen Cos. publications to develop a line of Road Champs cars patterned after classic roadsters featured in Petersen's automotive magazines. The line, to be dubbed Road Champs Collector Cars, is expected to be out in January followed by the Bassmaster fishing toy line next spring.

Analyst John Raaf with Red Chip Review, a Portland, Ore.-based research firm that tracks small companies, said Jakks has been successful introducing and selling newer lines such as Road Champs and Guild Guidance because the products retail at prices lower than more established lines such as Mattel's Hot Wheels and Hasbro's Playskool line.

"Retailers like to have a good, solid No. 2 player that customers can turn to when they don't want to spend as much for the big-name products," Raaf said.

Jakks is predicting that sales of its other lines will shrink the overall revenue contribution of the WWF line to 40% by the end of the year.