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MAT - Q1 2017 Mattel Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 adjusted loss per share of $0.32. Expects 2017 revenue growth to be in the mid-single digit range. Also expects high-single digit revenue growth for 2Q17.

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Mattel, Inc. First Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, David Zbojniewicz, Vice President of Investor Relations. Mr. Zbojniewicz, you may begin.

David Zbojniewicz

Thank you, Latif, and good afternoon, everyone. Joining me today are Margo Georgiadis, Mattel's Chief Executive Officer; Richard Dickson, Mattel's President and Chief Operating Officer; and Kevin Farr, Mattel's Chief Financial Officer.

As you know, this afternoon, we reported Mattel's 2017 first quarter financial results. We will begin today's call with Margo, Richard and Kevin providing commentary on our results, and then we will take your questions. To help guide our discussion today, we have provided you with a slide presentation.

Our discussion and our slide presentation will reference non-GAAP financial measures such as gross sales, adjusted gross margin and adjusted gross profit, adjusted selling and administrative expenses, adjusted operating income/loss, adjusted earnings/loss per share and constant currency. Our earnings release also includes non-GAAP financial measures. The information required by Regulation G regarding non-GAAP financial measures is included in our earnings release and slide presentation, and both documents are available in the Investors section of our corporate website, corporate.mattel.com.

Before we begin, I'd like to remind you that certain statements made during the call may include forward-looking statements relating to the future performance of our overall business, brands and product lines. These statements are based on currently available information, and they are subject to a number of significant risks and uncertainties that could cause our actual results to differ from those projected in the forward-looking statements. We describe some of these uncertainties in the Risk Factors section of our 2016 Annual Operating Report on Form 10-K, our 2016 quarterly reports on Form 10-Q and other filings we make from the SEC from time to time, as well as in our other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.

Now I'd like to turn the call over to Margo.

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

Thank you, Dave, and welcome everyone to our call. We plan to cover a lot today, but let me start by saying that I am truly honored to lead this iconic company. This is a company with a deep purpose: to inspire the wonder of childhood as the global leader in learning and development through play. We have an opportunity to shape the next generation, children that are more creative, collaborative, confident, resilient and open to all life's possibilities.

I spent my first 60 days deeply understanding what's working well and where we must improve to deliver stronger performance and capitalize on our many opportunities. We have been undertaking a wide-ranging review of our business and are leaving no stone unturned as we look at actions to drive revenue, improve profitability and create long-term value for our shareholders. This work is still ongoing and I will report back to all of you with more details on our strategies and plans at an investor event we will host in New York in mid-June.

In the meantime, I'll give you my thoughts on the first quarter, the remainder of 2017 and some of my early observations about the opportunities for Mattel that will drive future growth. So let's start with the first quarter.

Our first quarter results came in below our expectations. Gross sales in the first quarter were down 15% and gross margin came in at 37.9%. We view these results as unacceptable relative to what Mattel is capable of. Going into Q1, which is a seemingly light quarter, we expected lower revenue and gross margin because of the retail inventory overhang coming out of the holiday period, a lighter entertainment slate, declines in our doll portfolio, a few foreign exchange adjustments as well as some other factors. What we did not expect was a prolonged impact from the retail inventory overhang and the resulting slower pace of retail reorders.

These lower-than-expected sales had a material impact on our ability to efficiently absorb our supply chain fixed costs. I should note that the retail inventory overhang was essentially isolated to North America and a few markets in Europe, while Latin America and Asia-Pacific continued strong growth. In addition, we decided to proactively take action on a few ancillary brands to clean up our owned inventory and as a result, incurred a higher obsolescence expense. Clearly, we are disappointed with our first quarter results and recognize we have a lot of work to do to improve execution across our portfolio. At the same time, we remain very encouraged by our progress revitalizing our core brands, which continue to win in a very competitive marketplace.

POS, which we track at wholesale, shows Barbie, Hot Wheels and Fisher-Price all continuing their positive trends in the first quarter. And as I mentioned earlier, emerging markets continue to demonstrate strong growth and long-term potential, particularly Asia-Pacific and Latin America. We are confident we have worked through most of our inventory issues, and we should begin to see the benefits of scale in our cost savings programs as we move forward.

I also want to be fully transparent about a few areas for improvement. For example, we have not fully regained the lost momentum in American Girl and have a lot of work to do to capture the full potential of this incredible brand. At Monster High, which was in recent years a large and highly profitable business, continues to be a drag on our results. As the company's new CEO, it is my responsibility to ensure we are clear about what's working and what's not working, and ensure we effectively manage through these issues and set an aggressive but realistic path forward.

In light of our Q1 results, we are updating our expectations for the full year. We now expect full year revenue growth to be in the mid-single-digit range and adjusted operating margins to be flat as compared to prior year. We will have a better picture of how the year will shape up based on the initial response to Cars 3. We're very excited to reintroduce this iconic Disney franchise to a whole new generation of consumers. The film's staggered worldwide release schedule begins late this quarter, which should give us the ability to see how consumer takeaway is tracking and adjust to retail expectations going into the holidays.

We are continuing to invest in our business to deliver on our growth initiatives and we remain focused on optimizing resources to provide the financial flexibility to support growth investments and fund our capital deployment initiatives, including the dividend. Kevin will expand on this guidance and capital deployment later during the call.

Over the last 2 months, my team and I have focused on building a road map to accelerate our progress against our 5 strategic priorities, which we believe will meaningfully grow the business. We will have much more time to share during our investor meeting in New York, but let me take a moment to quickly frame up some of my thoughts on each priority now.

First, our core brands have a large opportunity to unlock growth by transitioning to multidimensional systems of play that integrate physical and digital worlds. Our global scale and accessible price points offer us a unique position to deliver these connected systems. The value propositions for each system will center on big ideas that millennial parents and kids care deeply about, and leverage compelling content and experiences to create ongoing conversations and deep relationships. These next-generation power brands will expand toy purchases and unlock adjacent revenue streams in areas such as content, gaming, licensing and experiences.

A great example of this systems approach is Hot Wheels. Hot Wheels are designed to ignite and nurture the creator and challenger spirit that lies within every kid to help them reach their true potential. There are endless possibilities with connected track and construction systems, technology-enabled cars, gamification and communities of passionate fans. We already have great response to new products such as Hot Wheels AI and our Hot Wheels games. The future is about integrating digital across our product line and unlocking more expansive levels of play and community experiences, both for individuals and even teams.

Fully developing the potential of these next-generation power brands requires embedding a new set of capabilities across our business. We're hiring new talent, upgrading our technology infrastructure and forming new partnerships to accelerate our progress.

Turning to our second strategic priority. We are strengthening how our Toy Box can significantly increase our innovation pipeline. We are proud of the progress we have made with our licensed entertainment partnerships. At the same time, we want to create more differentiated partnerships based on deep consumer and category insights, tech-enabled designs, best-in-class manufacturing and strong global distribution. We also see a big opportunity to develop a more robust content co-creation model. In addition, we are building a growing pipeline of tech-enabled products that capitalize on new play patterns, allow us to expand beyond traditional toy age ranges and serve as the inspiration for more creative uses of technology throughout all of our brands.

Third, given the enormous untapped potential, we want to increase our momentum in emerging markets with tailored product lines and strategic partnerships. Our recently announced partnerships in China, with Babytree, the largest online site in the world for new moms, and Alibaba will allow us to accelerate our strong growth in China. Working with these leading partners, Mattel can more quickly become the thought leader in learning and development through play and reshape the engagement model for parents and kids in the most mobile and digital-first region of the world. We plan to leverage this model to expand more quickly and efficiently across other top Asian markets, such as India and Indonesia.

Fourth, our commercial team has always been a strength of Mattel, with our early move to a global model and heritage of deep local market insight and entrepreneurialism. At the same time we can strengthen the performance of our top brands across markets by driving tighter standards for category development and retail execution, particularly omnichannel and e-commerce. As part of this, we need to continue to upgrade our capabilities in areas such as digital engagement and commerce, merchandising differentiation, demand forecasting and inventory management. Each of these is critical to staying in step with the shifts in consumer preferences and our retail partner needs.

And finally, we remain committed to continuous cost improvement across our business. In addition to our existing $240 million cost reduction program, we already see incremental opportunities to operate more efficiently. We are looking at new ways to capture value in areas such as SKU rationalization, more expansive automation and optimizing our manufacturing to enable our strategy, both owned and outsourced.

Let me end by saying our first quarter results are disappointing and not a reflection of the significant potential we see ahead. As we continue to carefully evaluate the business and update our strategic plans, we recognize we have a lot of work to do to successfully position Mattel for the future. But we see a clear path to driving sustained topline growth and regaining operating margins of 15% plus over time.

Throughout my career, I have set and delivered on aggressive yet achievable expectations in fast-paced and competitive environments. I am confident I can do that here again at Mattel. I'm excited to work with the talented team across Mattel to win in the marketplace and deliver on our mission and long-term objectives. And I'm particularly excited about the partnership with Richard, and I want to thank him for his support during my onboarding process. I look forward to meeting you, our investors, and providing updates on our progress at our investor event in June.

I'll now turn the call over to Richard.

Richard Dickson - *Mattel, Inc. - President and COO*

Thank you, Margo. Clearly, the first quarter results were disappointing. And given the impact on the results, I thought it would be important to provide more color on retail inventory.

When you look at our sales by region, you can clearly see that the retail inventory overhang was essentially isolated to North America and Europe. Asia-Pacific and Latin America saw minimal impact, with Asia-Pacific sales up significantly. And now that most of the inventory issue is behind us, we should begin to see sales reflect the real underlying momentum of the business as we pivot to the second quarter and build towards a strong second half.

The impact of the inventory overhang was also felt across several of our key core brands, even those that continue to have strong consumer takeaway. Barbie, unfortunately, is the best example of how this played out in the quarter. Despite solid Q1 POS in both regions, Barbie sales were down significantly in North America while actually up mid-single digits internationally. And as you look back on the prior year for additional context, we had Barbie POS building throughout 2016, with retailers increasing shelf space and promotional support. Retail confidence and retail inventory going into the holiday season was justifiably high. And while POS remained strong in the holiday, the significant category slowdown in December, combined with the seasonally light first quarter, simply meant there was no need for retailers to reorder and take additional inventory.

For the most part, this situation was also duplicated with Fisher-Price and Hot Wheels. Now to be fair, not all of our brands were impacted to the same extent or for the same reason. MEGA retail inventory is high and impacted reorders, mainly due to some bets on licensed properties which didn't meet performance expectations. And while expected, American Girl sales slowed due to some tough comps and the phased launch of our new contemporary characters line.

We clearly have work to do and remain focused on getting it right. And as we look ahead, let me take a few moments and share some tangible progress that demonstrates why we believe we're on the right track. As you know, we had good business momentum in our key core brands coming into 2017. And our internal analysis, which is tracked at wholesale, shows this trend continuing in the first quarter. Key core brand POS remained positive with Barbie, Hot Wheels and Fisher-Price all achieving solid mid-single-digit growth. So let me share with you a few specific examples of what consumers will see this year with these brands.

So let's start with Barbie. There are 3 areas that we're focusing on in 2017 that make me feel confident with this brand. The first example is the build-out of our basic fashion doll lines, with greater force of ethnicity, size and scale. Barbie's Fashionistas segment continues to exceed expectations, both with consumers and garner industry recognition, winning Toy of The Year in the Doll of the Year category -- an award Barbie, ironically, has never won until now.

The second example is the way we're leaning into content with the brand. Barbie is moving beyond the standard DVD business model and into specific episodic content for younger and older-age Barbie girls. Episodic content that will be available across the entire spectrum of digital distribution, allowing girls to engage with the brand whenever and wherever and however they want.

And the third demonstration of Barbie's resilience and category expansion has been our efforts in recapturing the hearts of younger girls. We're continuing our successful rollout of Dreamtopia, with the specific purpose of expanding Barbie's open-ended play pattern into the fantasy realm and attracting the younger girl. This line has done well and will be supported this year by new content and distributed in a new way, premiering on YouTube Kids with amazing placement and support from YouTube.

With Fisher-Price, we have seen steady growth and are continuing our work in reestablishing the brand's roots as the premier child developing company. As consumers engage with this brand, they'll see a more simplified message: Products that offer real solutions to today's parents, packaging changes that call out the developmental benefits more clearly and increased digital consumer experiences. Our baby gear, infant and preschool lines will get a boost from the new innovative product lineup and new marketing campaigns focused on sleep solutions, child development and active play.

One area I'm particularly excited about is how we continue to effectively leverage technology at Fisher-Price. In 2017, you will see the third-generation of the hit line, BeatBo, a second year of the successful Code-a-pillar and this year's innovative product, Movi. The progress we're making here is real and we believe there is significant opportunity for this brand globally. With our strategic partnerships with Alibaba and Babytree in China coming online, we are setting the foundation for accelerated growth in the Asia-Pacific market over the next few years, a business model we will look to repeat in other markets around the world.

Now let me briefly touch base on Hot Wheels. At the beginning of 2015, we told you this brand was the sleeper in our portfolio, and you could already see we had begun to wake this brand up with annual sales outpacing the industry and growing at an average rate of 8% annually for the past 2 years. We made some strategic investments in the product, content and digital, focusing on the basics: cars, tracks and play sets. And today, all of our tracks and our play sets are able to connect to each other. This year, we are building on this with tracks and vehicles that combine construction play with vehicle action. Expanding the depth of fun kids can have with Hot Wheels. All of this allows the child to build out his own world with multiple purchases over time. And we continue to infuse technology into product lines by expanding our very successful remote control and AI platforms with new and innovative product offerings.

So it's fair to say, we have been making some tangible progress with our key core brands. Now, American Girl and Thomas are a work in progress, but you're beginning to see a new brand architecture and content executions coming to life.

Moving on, while our licensed entertainment portfolio endured some tough first quarter comps, we anticipate real progress in the second quarter and throughout the year. We are the lead toy licensee on 4 big box office theatricals: Cars 3, Justice League, Fast & Furious and Wonder Woman. All 4 target a different audience and toy consumer, giving us the opportunity to expand on multiple toy aisles. And more importantly, from a strategic point of view, these theatrical events are coming out from different, highly successful entertainment companies -- Universal, Warner Bros. and Disney, demonstrating a significant improvement in the depth and breadth of our licensed entertainment partnerships. These partnerships, as well as our key relationships with Nickelodeon and WWE, moved well beyond 2017, presenting additional opportunities to grow in the future.

Let me end my remarks by saying we believe there is significant untapped potential in our core brands and our licensed entertainment partnerships. And while we continue to make real progress, focusing on the basics and investing in the future, Margo and I recognize we must step it up and become relentless around innovation, content, digital and consumer insights.

I am truly energized to have Margo join our team. Already, in the short time she has been with the company, she has made an immediate impact on our strategic thinking, our operational execution and our culture. Since we've had the benefit of working together previously, we are moving quickly to take action to accelerate growth, improve profitability and create long-term shareholder value. And we're looking forward to sharing more on this at our upcoming Investor Day in June.

And now, I'd like to turn the call over to Kevin.

Kevin M. Farr - *Mattel, Inc. - CFO*

Thank you, Richard, and good afternoon, everyone. My plan for today is to provide a little more insight into the first quarter, but focus mainly on its impact on our full year expectations. But before I go any further, I want to remind everyone that unless otherwise noted, I'll be referring to gross sales in constant currency in order to provide better visibility into the underlying top line trends. And in order to provide more transparency in the fundamentals of the business, I'll also reference some adjusted financial results that exclude nonrecurring executive compensation and severance related to our business transformation. As always, reconciliation to GAAP numbers are provided in our press release and the slide deck.

So let's walk through the P&L, beginning with the top line. Gross sales were down 15% as reported and in constant currency. Going into the quarter, we knew we'd be challenged by tough licensed entertainment comps, continued softness in some of our Girls properties, lower licensing income, Easter timing and our retail inventory overhang coming out of the holiday season. What we didn't expect was the prolonged impact from the retail inventory overhang and the resulting slower pace of reorders by retailers, with sales in North America and Europe particularly impacted. However, we were encouraged by strong performance in Asia-Pacific and continued momentum in Latin America.

Moving on to other P&L drivers. Our reported gross margin for the first quarter came in significantly lower than expected at 37.9%. During the quarter, gross margin was primarily impacted by an additional obsolescence related to the discontinuation of certain product lines from some of our ancillary brands, reduced absorption of supply chain fixed cost due to lower sales and unfavorable currency impact and lower licensing income. These headwinds were partially offset by pricing and our cost savings initiatives. A number of these factors should not carry forward in the remainder of the year but will impact full year gross margins.

As planned, advertising was flat as a percentage of net sales in the first quarter. And we remain disciplined with SG&A as we've continue to aggressively reduce costs while balancing strategic investments. Adjusted SG&A was down approximately $13.1 million or 4% year-over-year for the quarter. The majority of the year-over-year SG&A savings came from our successful efforts to tightly manage our overhead spending. Our tax rate for the first quarter was 22.3%, including discrete items. Finally, adjusted EPS for the first quarter was a loss of $0.32 compared to the prior year loss of $0.14.

Now turning to our balance sheet and cash flow. We ended the quarter with $382 million in cash, $218 million lower than the first quarter of 2016 due to higher working capital usage. And as expected, our owned inventory was up year-over-year, partially due to lower Q1 sales and to support our new licensed entertainment launches throughout the year and the continued positive core key brand POS trends we're seeing on a global basis tracked internally at wholesale. Overall, we are comfortable with our inventory, both owned and at retail, as we enter the second quarter with later Easter and the June launch of Cars 3.

Receivables were also up, primarily due to country and customer mix as well as later sales in the quarter. And we continue to deploy capital in a disciplined manner to both manage the business and reward shareholders. As expected, capital expenditure was up as we continue to make investments to grow the business. After reinvesting in the business, dividends remain our first priority. Our board recently declared the second quarter dividend of $0.38 per share, which is flat compared with the second quarter of 2016.

Now moving to our full year 2017 outlook. The first quarter results have set us back. And as a result, we now expect to be below the full year financial outlook that we provided in February. We now expect growth to be in the mid-single digits, with adjusted operating margin as a percentage of net sales to be flat with the full year 2016 due to higher revenues, which are expected to be offset by higher SG&A and slightly lower gross margins. We still expect strong revenue growth to come from incremental licensed entertainment portfolio, including Disney's Cars 3; our key core brands; our strategic investments in emerging markets, particularly China and Russia; partially offset by continued declines in Monster High and Ever After High.

Looking at our other P&L levers. Year-over-year, we expect to see sales adjustments roughly flat to last year, a year-over-year decline in gross margins due to the obsolescence expense in the first quarter, continued mix challenges and higher royalty expense due to our upcoming entertainment slate. These will partially be offset by strategic pricing and the successful execution of our cost savings initiatives. We expect to achieve our $120 million gross cost savings target for the year.

As for advertising, we continue to expect to be on the low-end of our historical range of 11% to 13% for the full year. We'll also continue to tightly manage adjusted SG&A, while balancing our investments in emerging markets and technology. We will continue to focus on our cost savings initiatives which will be more than offset by higher incentive accruals versus 2016 if we achieve our targeted performance metrics for 2017. Incentive compensation is an important tool for employee retention, which is essential to deliver on the turnaround and position the company well for the medium to long-term.

As for tax rate assumptions, we still expect the full year tax rate, including discrete items, to be 21% for 2017 assuming no changes to existing law. Also, we've adopted a new accounting standard last year related to stock-based compensation which may impact the tax rate going forward.

In terms of cash flow in 2017, we still expect significant cash flow generation, with topline growth, sustained operating margin and improved inventory management. Our capital deployment framework still targets $800 million of cash at year end. And while we expect to come in slightly below that target, we still believe we'll have sufficient flexibility to continue investing in the business and supporting the dividend, which remains a priority going forward.

Mattel's Board of Directors will continue to evaluate the dividend on a quarterly basis while taking into consideration the development of Margo's strategic road map to support and accelerate the company's strategic priorities and path to growth. The road map will also include capital allocation priorities to invest in the business to drive future growth and capital deployment, including the dividend. We'll know a lot more on how we are set up for the full year after the second quarter. We'll have better reads on POS for entertainment properties including launch of Cars 3, our key core brands, as well as our challenged brands like Monster High.

As we think about Q2, we expect high single-digit revenue growth with 1/3 of the incremental volume expected from Cars 3 to support the launch of the theatrical release in June, a sequential improvement to gross margins due to scale versus the first quarter of 2017 but below the gross margin rate in the second quarter of 2016. And adjusted operating income is expected to be slightly better than the second quarter of 2016 due to higher revenues being offset by lower gross margin.

Looking beyond 2017, we remain committed to growing the business, expanding margins and rewarding our shareholders. I look forward to continuing these discussions at our upcoming Investor Day in June.

With that, we'll now open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jaime Katz of Morningstar.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

First, can you tell us sort of if you feel you're largely complete with the -- working through the inventory overhang? Or is there some more that we should think about going through the second quarter and potentially even hanging into the third quarter?

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

Thank you, Jaime, for the question. We do believe that we've worked through it. And Kevin, would you like to share anything else?

Kevin M. Farr - *Mattel, Inc. - CFO*

Sure. I think, let me just take you through it. I think we originally expected the impact to be 1% or 2% of full year sales. And it turned out to be the impact was closer to 2%. The retail inventory overhang was highly concentrated in North America, as we've already stated. And if you look at year-to-date through Easter, POS for key core brands were up mid-single digits and retail inventory in North America is down by 3% year-over-year, which is pretty normal for this time. So while there's still a few isolated pockets of inventory, the overhang is largely behind us.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

And then can you talk about your longer-term goals? I know you are still holding to the 15% to 20%. But does this -- for operating margins, but does this move the ability to capture that even further out than maybe we originally anticipated?

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

We have a lot of work to do to successfully position Mattel for the future. But we do see a clear path to driving sustained topline growth and the operating margins of 15% plus overtime. The exact timing will depend on a number of factors that will be addressed by the ongoing strategic review, and we will provide a road map of action steps to get there at our Investor Day in June.

Operator

Our next question comes from Eric Handler of MKM Partners.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD, Sector Head, and Senior Analyst*

Actually, 2 things. First, Kevin, just a housecleaning thing. When you talk about operating margin being flat year-over-year, is that versus the 10.3% operating margin of last year? Or that -- I think that 10.3% was negatively impacted by an item, so it was really 11-point something? And then secondly, for Margo, I guess as you look at this business and the opportunities that you have with technology and some of the creative initiatives that you have, why do you feel it's so important right now -- or at least, why does the board think it's so important right now to maintain the dividend? It doesn't seem like investors are really rewarding you to have a 6% dividend yield. It's way above what the S&P dividend yield is. Wouldn't it be better to preserve cash and maybe increase the investments into some of your new initiatives and try to revive revenue growth by adding to the investment line?

Kevin M. Farr - *Mattel, Inc. - CFO*

Okay, I'll start with the first question, Eric. It's 10.3%. That is correct. That's the right thing to compare it to.

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

Eric, on your question about the dividend versus investing. We are deeply in the middle of the evaluation of our business and I don't want to presuppose any outcomes at this point. The company has had a long-standing capital allocation framework and the board continues to evaluate it every quarter as usual. Ultimately, this is a board-level decision and we will follow up when appropriate.

Operator

Our next call comes from the line of Arpine Kocharyan of UBS.

Arpine Kocharyan - *UBS Investment Bank, Research Division - Director and Analyst*

I have a couple, actually. If you could give a little bit more color on retail sales, a bit more detail. What exactly was Q1 POS up company-wide? And then, obviously, March was -- had a huge shift in Easter. How much of that -- if you had (inaudible) comps, that would be great. If you could share 3 weeks into April, what does that number look like year-to-date? And then I have a follow-up.

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

So Richard, I know you covered some of that earlier. Why don't you go back and then we can make sure that we cover all your questions, Arpine.

Richard Dickson - *Mattel, Inc. - President and COO*

Sure. From a POS perspective, and as you know we track POS at wholesale, it shows Mattel slightly down as a whole in the quarter excluding Disney Princess, which is primarily due to a tough licensed entertainment comp and some Toy Box brand. Toy Box brands. The global POS, both in, actually, North America and international on the core brands -- as I mentioned, Barbie, Hot Wheels, Fisher-Price -- is up single digits and in some cases, in international, up double digits.

Arpine Kocharyan - *UBS Investment Bank, Research Division - Director and Analyst*

That is a year-to-date number?

Kevin M. Farr - *Mattel, Inc. - CFO*

That was through March 30.

Arpine Kocharyan - *UBS Investment Bank, Research Division - Director and Analyst*

Is there anything you could share on Barbie in terms of retail sales in North America and international, what it looks like either through year-to-date or as of Q1?

Richard Dickson - *Mattel, Inc. - President and COO*

Yes. As I mentioned, Barbie sales both in North America and in international are up single digits, performing as to expectation. And if you recall actually last year, we had a strong performance as well from a POS perspective in the first quarter. Segments continue to do well, such as Fashionistas, which I mentioned; Dreamtopia, our state segment is doing well. We have some areas of weakness within the Barbie portfolio for this quarter on entertainment, which as we move forward and I explained in my upfront, our content strategy is evolving and we're pretty excited about what the back half represents in terms of a new form of content, new ways of distributing it. But generally speaking, we're pleased with the POS progress, both domestic and internationally.

Arpine Kocharyan - *UBS Investment Bank, Research Division - Director and Analyst*

No, that's very helpful. And then on Disney Princess. I know that there was some remaining inventory that you guys shipped in Q1 last year, but I believe that was not material. Is there a way -- could you quantify what exactly that was last year that was shipped? There was some remaining inventory that you had some grace period to ship.

Kevin M. Farr - *Mattel, Inc. - CFO*

Yes, I think it was de minimis from our shipping perspective. There is quite a bit of consumer takeaway though in the first quarter last year. As we shipped in the fourth quarter of 2015, those sold through, a lot of them, in 2016 first quarter.

Arpine Kocharyan - *UBS Investment Bank, Research Division - Director and Analyst*

Okay. Okay. And then on the top line guidance, it seems like Q1 down double digit, that implies the rest of -- the 3 quarters have to be up at least sort of 9%, 10%. As you stand here today, do you feel like some of the chunkier items you were expecting prior to Q1 still stand? For example, Cars 3 about $300 million and what do you expect from DC Super Hero Girls?

Kevin M. Farr - *Mattel, Inc. - CFO*

Yes...

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

We continue to feel confident in the worldwide sales for the Cars movie at $300 million. As we think about the sales guidance, part of the revision is driven by the inventory overhang impact moving from 1% to 2% of full year sales impact, as Kevin stated earlier. And part of it is that we are really being very careful this year, striking the right balance between sales and inventory build, given the experience we had last year in Q4.

Operator

Our next question comes from Gerrick Johnson of BMO Capital Markets.

Gerrick Luke Johnson - *BMO Capital Markets Equity Research - Equity Analyst of Toys*

On the inventory obsolescence, how much was written down and what lines and properties were those?

Kevin M. Farr - *Mattel, Inc. - CFO*

I don't think we're going to get into lines and properties. But it was some ancillary brands that we discontinued. So -- and the size of the obsolescence, when you look at the impact to the quarter, obsolescence probably had the biggest impact on declining margins, followed by scale and then ForEx.

Gerrick Luke Johnson - *BMO Capital Markets Equity Research - Equity Analyst of Toys*

Okay. Can you give us a dollar amount on that?

Kevin M. Farr - *Mattel, Inc. - CFO*

It's about $6 million.

Gerrick Luke Johnson - *BMO Capital Markets Equity Research - Equity Analyst of Toys*

Okay. And on Toys'R'Us' call on Thursday, they said, "we will work down inventory for the remainder of the year." How does that square with you guys saying that your overhang is behind you guys? Is Toys'R'Us just overloaded in other products from other companies? And does your position look there?

Richard Dickson - *Mattel, Inc. - President and COO*

Yes. I can't speak to Toys'R'Us' comments, I can speak about our business overall. And certainly our relationship with Toys'R'Us is very strong. As we've said on total, the inventory challenge that we've had going into the quarter is largely behind us. There are pockets of specifically inventory and retailers that we're working through. But on the whole, nothing significant. POS remains solid and is pretty consistent with what we've seen. And as we move forward, again, as Kevin suggested, all the data suggests that the inventory challenges are behind us.

Operator

Our next question comes from Tim Conder of Wells Fargo.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Any specific geographies -- and again, you said largely have the inventory overhang cleared up. But is there any -- where would you say that there are maybe some little pockets remaining to be mopped up? Question one. And then related to Cars, just want to make sure we're on the same level here. So you're still confident in the $300 million incremental, is that above whatever Cars did for Mattel in 2016, just a clarification on that?

Kevin M. Farr - *Mattel, Inc. - CFO*

Yes, that is correct. And with respect to inventories, we're pretty well cleaned up in North America, little bit of pockets, and there's a couple of countries in Europe.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay, okay. And then Kevin and Margo, you both sort of alluded to the managing the inventory a little bit better. How much of the overhang and discounting that we saw in Q4 and then in -- needed to then in Q1 here was due to, would you say, more competitive issues versus the maybe more internal inventory working capital planning, any issues from an internal perspective?

Kevin M. Farr - *Mattel, Inc. - CFO*

No, I think we -- as talked about at year-end, we set aggressive sales goals, we built the inventory and then we needed to ship it in the period of time that consumers are out to buy toys. And so I think that's what's happening in the first quarter, is the overhang from that.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay, okay. And a housekeeping item here. Any tentative date, location there in New York, for the planned Investor Day?

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

We are finalizing the details for that and we will announce it shortly. Mid-June.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay. Mid-June. Okay, great.

Operator

Our next question comes from Mike Swartz of SunTrust.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

I just wanted to follow up on the obsolescence charge in the quarter. Kevin, I think you said it was about a $6 million impact. Are you not fully reserved? In other words, we shouldn't expect any additional cost from that going forward?

Kevin M. Farr - *Mattel, Inc. - CFO*

Yes, I think this was a special event where we dropped some product line. And as we look out to the rest of the year, we really don't anticipate doing that again. And we think with regard to obsolescence expense overall against our inventories, that's properly stated at the end of March. So yes, I think this is one of those one-time items that we don't expect to see in the balance of the year, along with ForEx.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

Okay. And then second question, I think, Margo, you had mentioned that American Girl's lost some of its momentum. And understanding the strategy in the past year has always been to introduce some new brands into the wholesale channel. I guess, how do we think about that business over the next -- in the near term and longer term about how you actually grow and regain some of that momentum?

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

So first of all, American Girl maintains an incredibly passionate group of users. And so we're very excited about this brand and its potential, not just in the U.S. but internationally as well. Specifically, what I was referring to is the ability for us to grow this franchise. And you can see from my numbers, both last year and in the first quarter this year, we are not yet meeting the kind of growth expectations that we would love to have for this franchise. And therefore, we are deeply looking at our product line strategy, how we're building our relationships with our consumers. We have a new team there that started not too long ago and they have a lot of great plans for the brand. But we did want to fully disclose that, in the spirit of transparency, that we still believe that it's a work in progress.

Operator

Our next question comes from Felicia Hendrix of Barclays.

Felicia Rae Kantor Hendrix - *Barclays PLC, Research Division - MD and Senior Equity Research Analyst*

Big picture question here because I'm listening to everything so far on this call and especially in the prepared remarks, and I'm just having a problem seeing the forest through the trees. So Richard, to go back to something that you said, at the end of your prepared remarks you said that you must step it up. And I'm just trying to understand what that means since we've all had the impression that you've been stepping it up pretty aggressively over the past 2 years. And Kevin, we seem to be getting into a trend here where management talks about results that we didn't see coming. So for those of us who want to be more open-minded that Mattel can get back on track, how do we have confidence that the company's in the right place to execute the road map that Margo laid out? And Margo, you said you're confident that you can deliver on aggressive expectations. How much needs to change at Mattel for you to achieve those expectations?

Richard Dickson - *Mattel, Inc. - President and COO*

So I'll take a stab at going first on this one. So as I mentioned in my conclusion and that you're picking up, this is a business about momentum and about sort of the long view as it relates to product development and our process. At the same time, we're living in a digitally savvy world where our consumers are able to digest information at the speed of lightning here. We obviously need to continue to stress innovation as part of the heritage of the company but in a more pronounced and aggressive way. And the sort of way we build the product, the way we think about approaching our consumer, new ways of engagement, content is essentially the absolute ingredient, if you will, to narrate to consumers how our product is connected. So we're working tirelessly to develop new and interesting ways to tell new stories with our brands. And consumer insights, while we are incredibly pronounced and skilled in it, you can never essentially rest on it. We constantly have to listen to our consumers, react very quickly to trends. And so I don't necessarily think that this is anything that we haven't done. However, I do believe that with the learnings that we have and the momentum that we now see, we can get even more pronounced. We spent a lot of time in the beginning, if you will, sorting through and listening to our consumers and trying to essentially put back together these core brands and reignite our relationships in the entertainment community. I think what we've displayed is we've done a good job of that and we're starting to see the scores on the board. Now that we do have a little bit momentum, it's really time to step it up and start to dial up what we're learning, stop some things that aren't working. And with Margo's introduction here and ability to help us from a strategic, cultural and operational perspective cut through some stuff, we're going to make a lot more progress.

Kevin M. Farr - *Mattel, Inc. - CFO*

And I'd just say, it is pretty challenging to predict a business that's so seasonal. I think as you look at our outlook for today that we have updated, as Margo indicated, we have a desire to be more disciplined in our sales projections, ensure that we don't overbuild inventory, given our experience, next year. So I think we have a high level of confidence in the outlook that we're giving you today.

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

And in the spirit of trying not to be redundant, in complete alignment with what Kevin and Richard were saying, as I'm coming in new, this is really a great company. But we've had a couple of resets, particularly in our doll portfolio. And that has really forced us to accomplish some good things, which is we've reinvigorated our focus on our core brands and all the work that Richard has started over the last couple of years is beginning to move us in the right direction. But Richard and I are both extremely aligned on the opportunity to truly step on the gas. We have the right positions for these brands, but the opportunities to take a little bit more risk to transform them faster is what's going to enable us to move into that future that we want to see. We have all the elements in place today. But we do need to challenge ourselves from a cultural perspective. We need to modernize our infrastructure, we need to lean harder on the things that we know always made this company incredible -- innovation, collaboration and now we had to add to that speed. Because when you add those things together, as we talked about, exploring the wonder of childhood with our users, we also need to do that with ourselves. We have to really ask the tough questions and make the tough decisions. When we think about the consumer insight and data, the consumer is really moving quickly. Yet, this is a very long cycle business and so we have to begin to challenge the way we think about designing, developing and launching our products. And today, we're still doing it very much the same way we did many years ago. And so we're really beginning to challenge ourselves, as Richard said, to think differently about what is really right for the consumer. What do they really want from us? How do we engage them in a much deeper conversation? And then how retail often has historically driven just those 2 launch periods. And retailers are actually starting to work with us on that as well, because they are trying to get close to the consumer. So those efforts are very aligned. In addition to transforming our brands and our products, we also have the opportunity to leverage technology across our business. As Kevin referred to, this is a very complicated business. 60% of our products are new every year, and being able to use data to really understand consumer demand and to predict that more accurately going into the back half of the year is very important. And I think we can do a better job of how we do that, both by rightsizing our sales expectations as we come through this transition but also as we use next-generation indicators of demand.

Felicia Rae Kantor Hendrix - *Barclays PLC, Research Division - MD and Senior Equity Research Analyst*

So Margo, just from your best experience that you've had, how long does it take to change a culture to adapt to current trends?

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

Now, I come from a world where leadership starts from the top. And Richard and I have worked very hard in combining our management teams together and really setting a very proactive approach to how we want to work differently together, and we're already seeing great response from the team. I think one of the most important reasons that we're rightsizing the guidance, given what -- the overhang that's come before us in Q1, is that we want to set this business up to last for the long term. We want to do it right this year and we want to be set up for the future. So we're continuing to address -- invest aggressively in our business in Asia where we see the growth opportunity, as well as in our new brand opportunities. And I think we put too much pressure on the sales lever right now, we run the risk of running into some of the same challenges we did last year. So that's what we really want this year to be the one where we ride it and really run. And that's why we feel excited to come and spend time with the investors in June to share with you the excitement we have about the future of this company, both sales and profitability, and we think you'll very excited about what we have to share.

Felicia Rae Kantor Hendrix - *Barclays PLC, Research Division - MD and Senior Equity Research Analyst*

Well, I definitely look forward to that. And just, Kevin, just -- if you could help us understand, on the balance sheet, accounts receivable increased 8% year-over-year. Your sales were down 15%. So can you help reconcile that?

Kevin M. Farr - *Mattel, Inc. - CFO*

Yes, I think that's a factor of country risk and -- or country mix and also customer mix in different markets, as well as we saw later sales in the quarter. Those are the 3 drivers of the increase in accounts receivable.

Felicia Rae Kantor Hendrix - *Barclays PLC, Research Division - MD and Senior Equity Research Analyst*

So when you say country mix, do you mean shipping more, say, internationally?

Kevin M. Farr - *Mattel, Inc. - CFO*

Yes, selling more in Russia, China, where the trade terms are different and longer.

Felicia Rae Kantor Hendrix - *Barclays PLC, Research Division - MD and Senior Equity Research Analyst*

And so, was the bigger driver that versus the timing?

Kevin M. Farr - *Mattel, Inc. - CFO*

Yes, those 2 would be bigger than the timing, but timing was part of it.

Operator

Our next question comes from the line of Linda Bolton-Weiser of B. Riley.

Linda Ann Bolton-Weiser - *B. Riley & Co., LLC, Research Division - Senior Analyst*

Can you talk a little bit about the mix effect on your margin projection for the full year? That's a very important factor. And I guess with Monster High now being managed as part of Toy Box, is that something that will imply maybe a greater -- like an acceleration of decline, like it may kind of decline faster? And if so, can your Girls portfolio be up this year? And can you get your margin target even if the Girls portfolio does not grow this year? So the mix factor is a big, important part of it. So can you just comment on that and sort of the continuing decline of Monster High?

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

So let me start, and then Kevin or Richard feel free to jump in. There's no question that the decline of Monster High has been a real challenge for us the last couple of years, we just want to be very transparent about that. At the same time, we've made a lot of progress with both Barbie and expanding Barbie, as Richard shared several of those important examples earlier, and we've also launched new doll properties in the Toy Box with a lot of success working with Warner Bros. and WWE, and those are both very successful franchises. We are continuing to look at ways in which we can reinvigorate the Monster High business because it has a really deep and passionate following with consumers. But it's often very challenging in these cyclical brands. When they start going in those wrong directions, you have to be able to invest and reposition them. And so one of the reasons I went into the Toy Box -- because that's really what the Toy Box is about. The Toy Box is about creating new brands, reinvigorating brands. It's all about partnerships. And so we felt that it was important to have it in a place where it would get the right management attention, versus our core brands. Those are our evergreen brands that have very persistent sales year-upon-year, have a much more expansive range of categories that they participate in and experiences. And therefore, the approach that we take to managing them is different than a more content-driven franchise which is really what Monster High was for us; it's what catapulted it to success in the beginning. It became a viral success overnight. And then we just weren't able to find that right next [rev] to tap in, to where we want it to be. I don't know, Richard, do you want to add anything?

Richard Dickson - *Mattel, Inc. - President and COO*

No, I think that really says it all. I mean, just to sort of fill in a little bit of the blank. I mean, it still is a very powerful brand for us. Girls, as mentioned, are still attracted to the brand. We are coming out with additional new content on YouTube, a new series launching in August. And we continue to evolve and align advertising and promotional spending accordingly. There are a lot of things working both in content and in product, and again, trying to maximize those things that are working for us, and work harder and essentially eliminate the things that aren't.

Kevin M. Farr - *Mattel, Inc. - CFO*

Yes, let me just follow up on gross margin for the quarter. It was down due to a number of factors including additional obsolescence expense as we talked about, a reduced supply chain fixed cost absorption due to lower sales, lower licensing revenue and ForEx as well as a few other factors. That explain about 75% of the 680 basis point decline. When you look at mix, the impact of mix was slightly negative versus the prior year. It really is related to our doll portfolio declines.

Operator

(Operator Instructions) Our next question comes from the line of Greg Badishkanian of Citi.

Gregory R Badishkanian - *Citigroup Inc, Research Division - MD and Senior Analyst*

Just on American Girl, the momentum you talked about, not having that momentum. Is that at the company-owned stores or is that the third-party retailers that you're using? Is that where maybe the momentum isn't where you'd like it to be? And does that -- when you talk about momentum, is that versus the fourth quarter trend? Or just generally, where you'd like that brand to be in terms of sales growth at retail?

Richard Dickson - *Mattel, Inc. - President and COO*

Greg, it's Richard. So as you know, the first quarter is historically a very small quarter for American Girl. And the decline in the brand, as mentioned, was partially due to timing. You have a new phase rollout of new contemporary doll characters. Tenney and Logan specifically were rolled out in the first quarter. And we've got a new character coming out, her name is Z, in the second quarter. There were some, frankly, mixes in the business with our Girl of the Year this year versus last year. All of this was an expected decline. The impact actually of the decline was partially offset by Wellie Wishers and expanded distribution. So there is a story within the story itself. But ultimately, I think the takeaway here is that there is work to do. We are applying some of those strategies in place. We're excited about the contemporary doll rollout, it is doing very nicely for us. And also, we're going to be rolling out some new content with Amazon starting in June. Actually, we have a new story coming out, American Girl story about summer camp. We've got some great initiatives also on YouTube, digital content. And we'll continue to take some good swings at revitalizing the American Girl franchise.

Gregory R Badishkanian - *Citigroup Inc, Research Division - MD and Senior Analyst*

Sure. And then just finally, earlier you mentioned improving your e-commerce and omnichannel capabilities. So just how should we think about the incremental levels of spend? And how quickly you can see a sales benefit from those initiatives?

Richard Dickson - *Mattel, Inc. - President and COO*

So e-commerce is obviously a huge growth engine for us. We continue to perform -- in fact, outperform the industry as it relates to e-com. The fastest-growing distribution channel at Mattel. We were the #1 toy manufacturer online coming out of the holiday, and obviously, we want to remain there. We continue to partner both with our bricks-and-mortar partners that have e-com arms as well as pure plays online -- I mentioned Alibaba and Babytree is one. But we're really building on these omnichannel partnerships to not only offer the best shopping experience but also great product as well. We're going to continue to invest in this space, both in capabilities as well as CRM and our Salesforce partnerships. So it is an expanding channel for us. We think that we're actually leading in the industry, and we will continue to think about it as a digital-first opportunity.

David Zbojniewicz

Operator, we have time for one more question.

Operator

Our question comes from the line of Mike Ng of Goldman Sachs.

Michael Ng - *Goldman Sachs Group Inc., Research Division - Research Analyst*

I have one for Margo and one for Kevin. Margo, in the discussion about the dividend, I think it was mentioned that the board would take into consideration your strategic road map. Was that alluding to potential investment to set up Mattel for sustainable long-term growth? So the question is, now that you've been on the job for a couple of months, where do you see some of the performance gaps and areas where some investments could potentially yield some high returns? And for Kevin, I think at Toy Fair, you mentioned that you're expecting strong growth for Fisher-Price in 2017. Is that still the case? And any color you can give around the strength in Wheels will be helpful as well.

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

So let me start with your first question, Michael. Thank you. So as I shared earlier, as we go through the in-depth evaluation of the business and how we want to invest to grow the business going forward, as I shared back in February, we still believe we have significant financial flexibility within our existing envelope to fund our growth initiatives. At the same time, we will evaluate all opportunities for growth and how we make those trade-offs. And the company wants to ensure that we are constantly balancing our capital allocation framework that we've always had with those opportunities for growth. And we will be sharing that with the board as well as following up with the investment community in June.

Richard Dickson - *Mattel, Inc. - President and COO*

It's Richard, just to expand a little bit on your question related to Hot Wheels. It is, as I mentioned in my upfront, one of our exciting core brands that continues to deliver, outpacing the industry. We have lots of great new promotions, product and content that we continue to roll out. The strong momentum on YouTube, particularly as subscribers have grown double-digit even on the quarter. We're on track to hit some significant expectations. We're looking at all sorts of ways of expanding the brand which we're looking forward to sharing more of that in June. And I would complement -- the same type of profile with Fisher-Price. As we continue to get more pronounced in child development, we're really developing an incredible curriculum with talent in our organization around development, cognitive, social, emotional, physical development with product line architectures that support it; and a communication system with moms and dads around the world, leveraging obviously a digital-first approach to it. So lots of great ingredients that ultimately we'll share with you more in June.

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - CEO and Director*

I think just to specifically answer your question, I think we are expecting Fisher-Price to have solid growth this year.

David Zbojniewicz

Thank you. There will be a replay of this call available via webcast and audio beginning at 8:00 p.m. Eastern Time today. The webcast link can be found on our Investor page. Or for an audio replay, please dial (404) 537-3406, and the passcode is 87591604. Thank you for participating in today's call.

Operator

Ladies and gentlemen, this concludes the program and you may now disconnect. Everyone, have a great day.
