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Bryan G. Stockton – Chairman & Chief Executive Officer, Mattel, Inc.
Kevin M. Farr – Chief Financial Officer & Executive Vice President, Mattel, Inc.

Other Participants

Drew E. Crum – Analyst, Stifel, Nicolaus & Co., Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to Mattel's Fourth Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, today's conference call is being recorded.

I would now like to introduce your host, Mr. Drew Vollero, Senior Vice President of Corporate Strategy and Investor Relations. Mr. Vollero, please go ahead.

Drew Vollero, SVP-Investor Relations & Corporate Strategy

Thanks, Janine. As you know, this morning we reported Mattel's 2013 fourth quarter and fiscal year-end financial results. We've provided you with a slide presentation to help guide our discussion today. The slide presentation and the information required by Regulation G regarding non-GAAP financial measures is available on the Investors and Media section of our corporate website, corporate.mattel.com. In a few minutes, Bryan Stockton, Mattel's Chairman and CEO; and Kevin Farr, Mattel's CFO, will provide comments on the results, and then call will be opened for your questions.

Certain statements made during the call may include forward-looking statements related to the future performance of our overall business, brands and product lines. These statements are based on currently available information, and they're subject to a number of significant risks and uncertainties, which could cause our actual results to differ materially from those projected in the forward-looking statements. We describe some of these uncertainties in the Risk Factors section of our 2012 Annual Report on Form 10-K and our 2013 Quarterly Reports on Form 10-Q, and in other filings we make with the SEC from time to time, as well as in 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 Bryan.

Bryan G. Stockton, Chairman & Chief Executive Officer

Thank you, Drew, and good day everyone.

The fourth quarter of 2013 was a disappointing conclusion to what had been a pretty strong year for Mattel. Our financial performance in the quarter was below our expectations driven by revenue declines in the U.S. market, partially offset by emerging market growth and sound financial management. No question, the holiday retail environment in 2013 was very dynamic and challenging. Consumer behavior evolved quickly, as retail foot traffic fell, while online purchases grew. Additionally, consumers were more discount-oriented, particularly towards the end of the holiday shopping period. Despite these shifts, the overall toy industry proved, once again, it can hold up well and as predicted, consumers did finally make their toy purchases for the all-important holiday season.

For Mattel, unlike prior years, our product innovations and our marketing programs were not strong enough to drive growth for our core categories like dolls, infant/preschool and vehicles. And as a result, advertising expenses as a percentage of net sales were higher than planned due to a lack of sales leverage. Despite these challenges, we delivered strong gross margins and lower overhead expenses, which helped to partially offset the revenue shortfall.

The fourth quarter was clearly disappointing. But, as I said in the past, we don't manage the business quarter-to-quarter. For the full-year, revenues grew 1%, our fourth consecutive year of growth. We increased gross margins to 53.6%. We delivered 4% EPS growth versus last year's adjusted EPS and we returned nearly $1 billion to shareholders through dividends and share repurchases, while ending the year with $1 billion of cash on hand.

Before we talk about Mattel's performance in more detail, let me talk a little bit about the holiday retail environment and the toy space. From my perspective, the 2013 holiday period has to be one of the most transformative I've seen, particularly here in the United States. Consumers came out much later and less frequently to brick-and-mortar stores with ShopperTrak showing retail foot traffic in-stores to be down as much as 15%. Per NPD, holiday sales came later this year, with a higher percentage of sales in December compared to last year.

Consumers continued to shop more online as they have all year long. Cyber Monday sales were up 16%, and we saw similar gains for the online channel throughout the holiday season. And while consumers ultimately bought, they seemed to have done a lot more online research than they had in the past, and they were more deliberate focusing on discounts and deals. So what we saw as the season progressed was consumers going into retail stores less frequently, going later and being very focused with their purchases.

As a result, it seems retailers began to discount aggressively and limited their reorders to manage their inventory. With Toy Fair season well underway, we'll be meeting with our retail partners to supplement our analysis of what happened, why and how we may modify our approach for the 2014 holiday season. Despite these shifts, I was encouraged to see how well the industry held up. Per NPD, overall industry trends for the year did not change with the U.S. business down slightly and the Euro 5 market essentially flat.

Our international results and our boots on the ground also lead us to believe there is solid growth in other emerging and developing markets. As usual, new innovation brought energy to the toy aisle with strong growth in youth electronics, as well as some hot entertainment properties and new products. Shifts in sales between categories are normal for the toy business and 2013 was no different. Unfortunately for Mattel, during the holiday period, U.S. NPD results show the key categories we play in, dolls, infant/preschool and vehicles, performed below the industry average. In the end, 2013 looked a lot like the past decade for toys, but the relatively flat market in mature markets, and growth in emerging and developing markets.

Now, turning to our results, it was clear that our innovation and in-market execution did not resonate with consumers enough to achieve our sales goals. Mattel's U.S. POS for the year finished down high single-digits. And while our international POS results were better, they were still below our expectations. As a result of our POS performance, Mattel did not achieve its goal to reduce retail inventory. Mattel's retail inventory in the U.S. is up slightly compared to 2012. And while our visibility to international retail inventory is limited, we do see pockets of inventory that vary by market and brand.

Over the last few years, we planned and executed well during the holiday season. And while I believe we continued to excel in some areas in 2013, I thought we came up short in others. With the benefit of hindsight, let me take a minute to share my thoughts on a couple of areas where it seemed like we could have done better in 2013: marketing and product innovation.

First, our marketing came up short on a couple of key dimensions. We invested heavily in advertising and promotions in the quarter, but the effectiveness of our in-store, commercial and promotional activities was hit and miss, generally less effective than last year and well below our expectations.

While there is no doubt that this is partially driven by less in-store traffic and the evolution in consumer behavior, we did not maximize the effectiveness of our spending. As we move forward into 2014, we'll need to better partner with retailers to optimize our spending. And while our efforts in product innovation were good, they just weren't good enough in 2013. According to NPD, Mattel had 12 of the top 50 toys in the U.S. in 2013, but it was still below last year's number of 14.

In 2012, we had strong product innovation in areas like Games and Radica with Angry Birds and Fijit that we were not able to replicate in 2013. Our performance with our core brands of Barbie and Fisher-Price were also particularly disappointing in the quarter. While I believe our product innovation, marketing, promotion and packaging surrounding these core brands was better, it wasn't as effective as we had planned. In 2013, Barbie advertising and promotional activity was focused on her lifestyle and play patterns. Accessories like the Dreamhouse and Camper did very well. In fact the Barbie Dreamhouse was the number one item for Barbie this holiday season and shows us that girls still love to play with Barbie.

The reality is, we just didn't sell enough Barbie dolls. And while we had two video releases in the fall, only one met our expectations and the other came up short. Overall, global shipments for the brand ended down mid single-digits, but was pretty aligned with POS. In the U.S. shipments were down sharply in the fourth quarter, but POS was stronger than shipments.

And as for Fisher-Price, we had some great products like the Laugh & Learn Crawl Around Car as well as some great Thomas product in entertainment that simply wasn't enough to offset other parts of the business. And while I was happy with the full-year results for Fisher-Price brands, the fourth quarter had some challenging comps with last year's launch of Disney's Jake and the Never Land Pirates and Dora's 10th anniversary.

Overall, Mattel built a plan to grow in the fourth quarter and built inventory accordingly. Unfortunately, sales declined and as a result, our Mattel owned inventories are up. One piece of good news is the quality and the mix of this inventory is good, allowing us the opportunity to optimize and ship the inventory over the course of this year.

In the near term, this will likely mean inventories from Mattel in 2014 versus 2013 will be higher. As I mentioned earlier, while the fourth quarter was disappointing, we still grew in 2013 for the fourth consecutive year. And there were some bright spots in the quarter. So, I like to highlight those markets and categories where we are executing well.

First, we saw a good momentum in many of our international markets with very strong growth in the emerging markets. Eastern Europe is doing well led by strong growth in Russia, where we nearly tripled our sales in 2013. Asia continues to grow with our investment in China continuing to exceed expectations with sales up once again high double-digits. And in Latin America, we achieved about $1 billion in sales for the third year in a row despite some economic headwinds.

Second, I continue to like what I see in our Girls portfolio, which grew slightly in the quarter. Monster High consumer takeaway globally was up double-digits in the quarter and for the year. We're encouraged with the early reads and initial placement of Ever After High and Disney Princess gained a lot of momentum in the fourth quarter with Sofia the First and Frozen. And we saw continued strength with American Girl. Our TV advertising continued to be effective and Saige was an outstanding Girl of the Year. We saw positive results with our e-commerce entry into Canada and our retail expansion in the U.S. continues to be a strong driver of growth. Simply put, sales across all channels of American Girl grew in 2013 driven by great product and a very effective omni-channel marketing and sales strategy.

As I mentioned earlier, I felt we managed the P&L well in light of the challenges in the fourth quarter. We ended the year with an 18% operating margin equal to last year's adjusted margin. We achieved this by continuing to focus on gross margin, posting our fifth consecutive year at or above 50%.

Another contributor to solid operating margins is the fact that we are a pay-for-performance company. We clearly didn't meet our internal expectations for performance, which reduced our incentive and equity compensation pools, resulting in reduced SG&A expense in the quarter.

Mattel's sound economic model continues to generate significant cash flow and we deployed much of it to our shareholders. In 2013, we were able to reward our shareholders with solid dividend growth and opportunistic share repurchases. We paid out almost $1 billion in dividends and share repurchases and today we announced a 6% increase in 2014's first quarter dividend. And we ended the year with $1 billion in cash on hand, which gives us tremendous flexibility as we enter 2014.

So as we moved into 2014, I want to spend a few minutes talking about where we're heading and what we need to focus on in the near-term. As we move forward, we remain committed to our long-term growth strategies and our where to grow and how to grow roadmaps. Our long-term goals remain grounded in total shareholder return and we continue to target to achieve top-third to top-quartile performance. This means a commitment of 6% to 8% profit growth over the long-term. We need the commitment to grow and continue to be financially disciplined while doing it.

So in the short-term, here are the activities we're going to focus on. First, we need to improve the performance of our core brands through more innovative products supported by more effective advertising and promotions. Next, we need to drive our overall POS higher, particularly in North America. We need to evolve our demand creation strategies to better align with the changing consumer environment and make our advertising and promotion dollars work harder and go farther.

As I said earlier, our Mattel-owned inventories are higher and retail inventories are slightly higher. We need to work through pockets of inventory that vary by brand and market. While the inventory position is small relative to our full-year shipments, we expect to see a modest impact to our shipments over the next few quarters as retailers sell through this inventory.

As you would expect, we're working closely with our retail partners to better understand the changing consumer dynamics and we will adjust our 2014 consumer engagement strategies accordingly to ensure we're targeting the consumer where they are and when they are ready to buy. And I look forward to sharing with you all the new things coming in 2014 in a couple of weeks.

As I told you in October, Mattel begins with investing in our core brands and we will continue to bring innovation to all of them. We will continue to invest in the emerging markets and consumer engagement. We will be annualizing and building up the success of a number of great launches and additions we had in 2013 including Ever After High, Disney Sofia the First and Frozen, our American Girl retail expansion and move into Canada, Max Steel, Disney's Planes and a full year of Thomas on the PBS network feed.

We will also begin new partnerships with Marvel, Minecraft and Star Wars and we'll bring some clarity to a whole new category launch for spring that I teased you with at our Analyst Day in October. Our path to growth remains in our core brands and creating new franchises and partnering with the best entertainment partners and leveraging our global infrastructure. I still believe we have the strongest and most diversified portfolio of brands, countries and customers in the business.

Thank you for taking the time with us today and I look forward to seeing you in a few weeks in New York. And now I'd like to turn it over to Mattel's Chief Financial Officer, Kevin Farr. Kevin?

Kevin M. Farr, Chief Financial Officer & Executive Vice President

Thank you, Bryan, and good morning everyone. As Bryan noted, our fourth quarter performance came in below expectations driven by revenue declines in the U.S. that were partially offset by sound financial management. As we entered the all important fourth quarter, our revenues and profitabilities were consistent with our long-term goals. We planned to grow, built the inventory and built the marketing and advertising plans to support it and we came up short.

As Bryan noted, while we did grow slightly for the year, we did not reach our objectives primarily due to the revenue shortfall in the fourth quarter. For the year, revenues grew 1%, operating margins were a healthy 18% and earnings per share increased 4% over last year's adjusted EPS.

Before we review the slide deck, I want to comment on four areas: our progress on Operational Excellence 3.0; our balance sheet; our capital deployment; and an update on our business investments.

First, we made terrific progress in our Operational Excellence 3.0 cost savings program. For the quarter, we had over $30 million in gross savings and finished $10 million ahead of our 2013 goal of $50 million. These savings were necessary to offset the commodity and marketplace cost pressures that we experienced in the quarter. Moving forward, we're well positioned to deliver our two-year savings target of $175 million.

Second, as you look at our balance sheet, what stands out is that Mattel-owned inventory, is up 22% or about $100 million. While some of the increase in inventories were a result of rising cost, we finished the year with more inventory than planned since we did not meet our sales objectives for the fourth quarter. As we go forward, we expect to optimize the disposition of most of this inventory during the first few quarters of the year. As a result, we'd expect to have higher inventory balances throughout 2014.

Third, we continue to focus on capital deployment, balancing dividends and share repurchases throughout the year. And today, we announced our first quarter 2014 dividend, $0.38 per share which annualizes to a $1.52 or a 6% increase from 2013. This represents about a 59% payout ratio of 2013 EPS and is consistent with our EPS growth in 2013. We also repurchased $83 million of shares in the quarter and $469 million for the year. We will continue to be opportunistic about investments in our own stock.

Fourth, I'm very pleased with the traction we're getting on our strategic growth investments. Our emerging market investments in China and Russia were key drivers of our Asia-Pacific and European growth in the quarter.

Our investment in expanding American Girl retail footprint is a big part of that brand's growth story. And our investment in new American Girl omni-channel system is timely, given the changing retail environment and the ongoing shift to customers online.

In 2014, both American Girl and Mattel will have enhanced digital capabilities to market and transact across multiple channels. The system is now being implemented and is expected to go live in the middle of 2014. And finally, with our two most recent investments in new franchises, Max Steel and Ever After High, we expect to recoup the original investments and more as we work to maximize the global reach in 2014.

Now, let's move on to page four of our slide deck. You can see that our worldwide gross sales are down 6% for the quarter and up 1% for the year. The primary driver was POS which was below our expectations. Mattel's U.S. POS for the year finished down high-single digits and while our international POS results are better, they were still below our goals for the year.

Let's turn to page five and six of the slide presentation to review sales by brand. Worldwide sales for Mattel Girls & Boys Brands were down 4% for the quarter and up 3% for the year. Our Girls portfolio performed well with Monster High as the clear standout and Disney Princess was also up too. As Bryan noted, we are happy with the launch of Ever After High and believe it is well positioned to grow on a global basis in 2014. And while, Barbie performed well below our expectation in North America, the performance internationally, which is about two-thirds of the total business, was better.

Our Wheels business was down both in the quarter and the year with solid performance in Hot Wheels basic cars offsetting underperforming Hot Wheels Tracks and Playsets. Our Wheels business overall was also impacted by declining sales in our Matchbox and radio-controlled lines. A number of entertainment properties did well in 2013, including Disney Planes and Max Steel.

As expected, we did experience a decline in Cars 2 sales as consumers were introduced to Planes. And our Superman line met expectations, but was unable to comp last year's Batman movie launch. And our games and Radica business declined as it was not able to match the sales in 2012, of popular toys associated with Angry Birds and Fijit.

Worldwide sales for Fisher-Price Friends were down 13% for the quarter and 6% for the year. We continued to see declines in our core Fisher-Price and Power Wheels businesses, which were partially offset by full year growth in Fisher-Price Friends.

For the quarter, Fisher-Price Friends were down due to tough comparisons to last year's fourth quarter successes of Disney's Jake and the Never Land Pirates and Dora's 10th Anniversary promotion.

American Girl continues to deliver strong results with sales in the fourth quarter up 3% and sales up 11% for the year. Our 2013 Girl of the Year, Saige and American Girl retail stores continued to drive growth for the brand.

Our international business, as seen on page seven, had flat sales for the quarter and was up 5% for the year. The solid growth in Europe is encouraging in light of the economic headwinds that continue in that region. Latin America recorded its third straight year of annual gross sales of about $1 billion with strength in Max Steel offset by some softness in Brazil and a continuing unfavorable foreign currency environment. Our Asia-Pacific region continues to be a source of great opportunity for Mattel with our results in China particularly encouraging.

Now, let's review the P&L starting on page eight of the slide presentation. For the fifth year in a row, Mattel has delivered gross margins at or above 50%. The fourth quarter gross margin rate of 54.5% was up 20 basis points compared to last year's record quarter. For the full year, gross margin was 53.6%, which was up 50 basis points versus the prior year. The improvement was driven by O.E. 3.0 savings, favorable mix, and our pricing actions which helped offset increased input cost.

As seen on page nine of the slide presentation, selling, general and administrative expenses decreased in the fourth quarter by 120 basis points to 18.4% of net sales as compared to last year's adjusted spending. For the year, SG&A expenses increased slightly by 20 basis points to 24.1% of net sales compared to last year's adjusted spending. This increase reflects higher employee related expenses, higher spending on strategic growth investments and the second quarter intangible impairment related to Polly Pocket, which were partially offset by lower incentive and equity compensation accruals lower integration expenses and net savings from O.E. 3.0 initiatives.

Page 10 of the presentation summarizes performance of our O.E. 3.0 cost savings program. As I noted earlier, we exceeded our 2013 targeted savings by $10 million and we're well positioned to deliver $175 million of sustainable savings by the end of 2014.

Turning to page 11, for the quarter operating income was $479.3 million, down 6%, but flat as a percentage of net sales versus last year's adjusted fourth quarter results, For the full year 2013, we delivered operating income of approximately $1.2 billion with an operating margin of 18%, which was equal to last year's adjusted results.

Turning to page 12, our fourth quarter earnings per share was $1.07, down 4% versus last year's adjusted EPS of $1.12. Earnings per share for the full year of 2013 was $2.58, up 4% versus adjusted 2012 EPS of $2.47, driven primarily by improved operating income and a lower worldwide effective tax rate, partially offset by a slightly higher share count.

Page 13 summarizes acquisitions, integrations, and other costs related to the HIT acquisition. We incurred integration cost of less than $1 million in the quarter and about $5 million for the year, which are down significantly from 2012 when we made the acquisition.

Now, let's turn to cash flow on page 14 of the slide presentation. Cash flow from operations for the year was $698 million, a decrease of $578 million compared to 2012. The decrease was driven primarily by higher working capital usage, which included the $138 million payment of a previously accrued litigation judgment, partially offset by higher net income. Investing activities were down significantly compared to 2012, which included our acquisition of HIT. Accordingly, we increased our share repurchases in 2013 and we ended the year with $1 billion of cash on the balance sheet, so we continue to have plenty of flexibility.

Page 15 summarizes two key components for our capital investment framework, our dividends and share repurchases. In 2013, Mattel returned almost $1 billion to shareholders. Dividends continued to be a key driver for Mattel's total shareholder returns. Another important component of our framework is share repurchases. In 2013, we repurchased 11 million shares at a cost of $469 million.

Mattel will continue to deploy excess cash consistent with its longstanding capital investment framework, which includes investing in our business, paying a top quartile dividend, repurchasing shares and executing targeted mergers and acquisitions.

So, in summary, we're very disappointed in the fourth quarter where we planned to grow and came up short. But we're encouraged by the fact that despite the quarter, we were still able to grow for the year.

Our mix of strong brands, our international infrastructure and our diverse global customer base remain a proven formula that consistently delivers superior cash flow and continues to be a strong foundation to deliver top third to top quartile total shareholder returns.

We'll continue to look to grow our business consistently, grow it profitably and deploy the cash generated in value enhancing ways to reward our shareholders. That concludes my review of the financial results.

Now, we'd like to open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question is from Drew Crum of Stifel. Please go ahead.**<Q – Drew Crum – Stifel, Nicolaus & Co., Inc.>:** Okay. Thanks. Good morning everyone. So, Bryan, you guys fell short of the 6% to 8% operating profit growth target you set out. Can you just comment on your expectations or how you feel about achieving that growth level in 2014? And then secondly, can you just talk about where you are with the turnaround for Fisher-Price? This is something you guys have been asked for the last couple of years and assess what worked and what did not work in 2013 and what the plans are for 2014? Thanks.

<A – Bryan Stockton – Mattel, Inc.>: Hi. Good morning, Drew. I'm not going to give you any specific guidance as it relates to 2014. You're right. Our long-term goal is to deliver 6% to 8% profit growth and that drives our TSR model so that we deliver the upper third to upper quartile TSR. The way that we think about that is we have a variety of levers to pull. Revenue is a lever. Gross margin is a lever. The middle of the P&L is a lever and we approach every year a little bit differently trying to get an understanding of where we think opportunities are on each of those particular levers. Now if I look at 2013, we obviously thought that revenue was going to be a stronger lever for us. We need depth in investments and advertising and inventory and things of that nature to do that. So, we still feel good about that. Kevin, do you want to add anything to that?

<A – Kevin Farr – Mattel, Inc.>: Yeah. I think as you mentioned Drew that our 2013 results were below our expectations. So I think we need to execute better in 2014 and I think near term, our key focus will be to improve our domestic POS and working through retail and company-owned inventories and really making our advertising and trade spending, working harder for us next year and as we develop our annual financial plan, we will balance those key P&L levers that Bryan talked about across our business to achieve these goals.

<A – Bryan Stockton – Mattel, Inc.>: So let me address the Fisher-Price question Drew. Clearly, we're disappointed with Fisher-Price in 2013 and frankly it's frustrating to me because I've seen isolated examples of us getting the strategy and the marketing execution right, but we just haven't been able to see it consistently across the brand. For example, Fisher-Price Friends did well driven by Thomas and HIT as well as Octonauts, for example; some of our emerging market products did very well. We had success in Laugh & Learn products.

So, there are some pockets, but I just think there is so much potential for this brand when we get it right. And I think the example I'd use is probably China. In China, Fisher-Price was just named the Top Baby Brand in 2013 by Parents magazine, which I believe is the number one magazine for parents in China.

As you know, we've been investing in Fisher-Price, the brand, for the last couple of years pretty heavily and we've seen our Fisher-Price business grow in double-digits in China. So, we feel very positive about that. And the good news is China is a country where they are relaxing the one-child policy. So, I see us doing well in China. We just need to figure how we export what we've done there to more countries and more categories.

As I reflect back on what we said on the third quarter call, we said, it's all about improving POS for Fisher-Price. We planned to grow, again, we put the promotional programs and built the inventory, we thought we had the consumer engagement plans in, but we just came up short.

Now having said that, we've talked a lot about the new advertising and packaging and things like that and the consumer testing we've done, does suggest that it's stronger. I think what it comes down to is the product and our execution just didn't work as well as we'd hoped in the fourth quarter. We didn't have enough differentiation in our products, some of the marketing and promotional programs that we activated at retail didn't seem to work as well as we would have liked.

Interesting for both Barbie and Fisher-Price, those two brands, I hesitate to use the word over indexed, but they are pretty retail promotion heavy brands when I compare the activity that retailers work with us on those brands compared to other brands in the portfolio. So I think that may have had some impact on Fisher-Price POS.

And when we looked at Friends, we had a tough quarter from a comp standpoint. We were comping essentially year one of Jake and Dora's 10th Anniversary as I mentioned in my comments. So, we still think we can leverage this brand globally. We have proven that we can do it in some markets. We got to really work hard this year in getting our innovation right, tweak the marketing message and continue to really push our Friends business, which we think still has a fantastic portfolio of brands.

We're excited about our partners. We're excited about Thomas. We spent a lot of time last year focusing on improving execution, and we bored you with stories about Televisa in Mexico and getting to the PBS network feed. So, we have I think some positive things to think about on Fisher-Price, but it all boils down to better innovation, better marketing, better sales execution.

<Q – Drew Crum – Stifel, Nicolaus & Co., Inc.>: Great. Thanks guys.

<A – Bryan Stockton – Mattel, Inc.>: Thanks, Drew.

Operator: The next question is from Greg Badishkanian of Citigroup. Please go ahead.

<Q – Greg Badishkanian – Citi Investment Research>: Great. Yeah. Thank you. So Bryan, I know Mattel never manages for the quarter and sometimes that helps or hurts you in any one particular quarter. And there were lot of changes in terms of the holiday – for the holiday the consumer shopping patterns. So which issues do you think were isolated just to the fourth quarter and which of those issues are going to carry forward into 2014 just kind of thinking about fourth quarter, what type of run rate we should be thinking about for next year?

<A – Bryan Stockton – Mattel, Inc.>: Hey, good morning, Greg. I'd start first with the toy category. We feel good about the toy category, it performed well especially relative to history and I think there were a lot of concerns about toys this year with the launch of a couple of new video game platforms and a variety of other things. So we felt pretty good about the toy category performance. So I would say, I don't know if it's a tailwind but it's certainly not a headwind.

Our brands we feel good about, we invested a lot in the brands and so we think there is a lot of good opportunity there. Online we think is really important. We've talked a lot about that channel and the investments we've made there. Our American Girl online business continues to grow and I know Kevin has talked to you about our investment in a project we call Launchpad which improves our omni-channel capabilities with American Girl. And I think, as we see consumer shift back and forth almost seamlessly between in-store and online, that's going to be a really important investment for us.

So, I think those things are going to be things that are positive for us. I would also say we spend a lot of time every year really reflecting on lessons learned for us. Our promotional spending and advertising did not work as well as we would have liked. We're just spending a lot of time as you can imagine now reviewing that. As I mentioned, we're going to be working with our retailers and trying to understand from their perspective what else is going on that could help us. And I think the other thing that is good that we can look forward to is, I think we're doing a pretty good job of connecting. We're connecting with Fisher-Price Moms. We know that. We're connecting with girls with Barbie and Ever After and Monster High. We're connecting with boys on Fisher-Price.

I think the challenge for us this year is to go from connection to conversion. And that is I think something whether it's in-store conversion, if there are going to be fewer feet going in-stores in 2014, which we don't know, but we need to figure out how we convert those feet more sharply. Online, we need to figure out how we're going to get better conversion.

<A – Kevin Farr – Mattel, Inc.>: Yeah, I think on that, I think the consumers' path to purchase is evolving and I think that's here to stay, Greg. I think what we're going to do is, sit down with retailers and really look at how we optimize our advertising spend in our trade programs to basically connect with consumers and convert and get more lift out of that existing spending.

<Q – Greg Badishkanian – Citi Investment Research>: How long do you think that will take you to work out a strategy and implement?

<A – Bryan Stockton – Mattel, Inc.>: Well, the good news is, we've got a lot of smart people looking at this and we've got very strong relationships and partnerships with our retailers around the world. So, everybody is working on it now. Our intention will be to work on the lessons learned from 2013 and implement in the fall of 2014 and if we can implement something before that, that would be great.

<Q – Greg Badishkanian – Citi Investment Research>: And then, just one other question. Inventory levels were up a bit at retailer, up a little bit in terms of what you hold on your books. In the first half, how much will you need to assist your retail customers to sell some of that inventory,looking at the margin impact of increased discounting at the retailer and helping them with that?

<A – Kevin Farr – Mattel, Inc.>: Okay. Greg, let me take that one. I think I'd step back for a second and say, makes sense for me to answer your question or comment on both retail inventories and Mattel-owned inventories at yearend 2013. And with respect to retail inventories, as always we encourage you to speak with retailers. That said with respect to retail inventories we got better information in U.S. So consider this directional.

We estimate retail inventories are up slightly versus last year, low single-digits. We've got pockets of challenges by both brand and retailer. We also have pockets of inventory challenges in certain international markets. And as always we're going to work with retailers in the near term to optimize sell-through by developing retail programs to work through inventory over the first few quarters. We expect the higher retail inventories will modestly impact our overall 2014 shipments in the first few quarters.

If we turn now to our Mattel-owned inventories, as you know we planned to grow and built the inventory accordingly. And due to declines in sales in the fourth quarter, we ended 2013 with more inventory than we planned, where year-over-year inventories increased by about 22% or $104 million to $569 million.

Given the size of Mattel, this is a relatively minor amount on a full-year basis and as Bryan said, our Mattel-owned inventory is in relatively good shape. So we're currently developing programs to optimize the sale of Mattel-owned inventory over the next few quarters. As such, we would expect higher Mattel-owned inventory levels during the first few quarters of 2014 versus 2013 and we don't expect the shipments of Mattel-owned inventories to have much of an impact on 2014 gross margins.

<Q – Greg Badishkanian – Citi Investment Research>: Great. Thank you very much.

Operator: The next question is from Tim Conder of Wells Fargo Securities. Please proceed.

<Q – Tim Conder – Wells Fargo Securities LLC>: Thank you, and thank you Kevin there for that additional color. If I may just, could you expand on a couple of the international areas where you have some pockets of inventory, one? And then Bryan, on Fisher-Price Core, the international opportunities, what are some specific things you guys are doing to tap that, granted Fisher-Price is more heavily skewed currently towards North America and therein lies the opportunity in the developing and emerging markets. But what are some specific initiatives that have been put in place there in the last year that you're planning to roll out here in the near term?

<A – Kevin Farr – Mattel, Inc.>: Yeah, with regard to what international markets, I'm not going to get into the specific markets but it's in various mature markets around the world.

<Q – Tim Conder – Wells Fargo Securities LLC>: Okay.

<A – Bryan Stockton – Mattel, Inc.>: So, regarding Fisher-Price, Tim, I think there's a couple of things on Fisher-Price. Number one, I go back to the reorganization we put in place a couple of years ago when we went to the global brand teams in the North America division. One of the things that we've seen that has worked quite well is the global brand teams, as we said, are spending less time in the United States and more time outside of the United States. So, on Fisher-Price specifically, the team went to China and understood how important sleep is, it is much more important to Chinese moms than it is to moms in America for example.

And so, we have this product called the Soothe & Glow Seahorse that when we showed it to moms, they thought it was fantastic. We did a lot of work on that from a cost standpoint, benefit standpoint to hit the right price point and deliver the right benefits. It was a terrific product from an either in-store promotion or advertising standpoint, and it was a huge success. I can't tell you the number of units we sold but it was quite high and almost in our days, almost Elmo like, it was huge. So we liked that a lot and we're going to continue to do things like that in more countries.

<A – Kevin Farr – Mattel, Inc.>: Yeah, and I think with respect to that, to the Seahorse, I think we really resonated on the marketing message to mom that not only did it help moms sleep better, but it helped the baby to sleep better and if the baby slept better, it obviously would do better in development and learning, and that really resonated with consumers. So I think tailoring that marketing message on the Seahorse to what consumers looked at, the benefits of that product, it got them to buy and buy significantly deep into this particular product. So doing that in areas across the Fisher-Price line is a great opportunity for us in 2014.

<A – Bryan Stockton – Mattel, Inc.>: And I think the Seahorse is a good example, it's a fairly basic product, it's not a complicated high-tech kind of thing and I think sometimes we forget that's what's really important in a lot of these developing markets, is something that is a little simpler and more focused. So we're going to do that. Obviously, we focus a lot on our merchandising in-store, making sure we have the right mix of product in-store in these markets. And we're going to continue to invest in these markets in terms of advertising.

And I think the other opportunity for Fisher-Price is recall that our shares at Fisher-Price are quite low outside the United States and a couple of other markets. So we think there is an opportunity for us to go from a low share to a higher share, if we get all the basics right.

<Q – Tim Conder – Wells Fargo Securities LLC>: Okay. And then last question gentlemen, your strategic growth investments that you talked about here also, is there any way just ball-park what percent of those are somehow mobile or tablet related, anyway to sort of give us some color on that?

<A – Bryan Stockton – Mattel, Inc.>: Hey Tim, I don't know that we necessarily think of it that way. When we think about linking with consumers across all of our brands, we focus on, can they launch it on a mobile phone, a tablet, any kind of pad, a computer, a screen, a DVD, Netflix. So, we really think that our content needs to be available almost regardless of platform. So that's sort of where we start.

<A – Kevin Farr – Mattel, Inc.>: Yeah. And I think with respect to that when you look at our new franchises for 2013 and we just launched Max and we launched Ever After High and we're making significant investments in content which are going to be delivered whenever and wherever consumers want to view it including mobile. And I think also with regard to our investment with regard to Launchpad, as I said in my remarks, we're going to have enhanced capabilities to market digitally and also distribute content and we're also spending a lot more time distributing our content on Netflix and get pretty good traction there. So I think the additional capabilities that Launchpad will bring to us both from a digital marketing perspective and also to enhance our ability to connect with consumers on a multi-channel basis for American Girl and over time across Mattel, our important capabilities are coming up in the middle of 2014.

<Q – Tim Conder – Wells Fargo Securities LLC>: Kevin, if I may, one thing there, just to clarify, how has Max and Ever After High or Bryan, how did that go here initially versus your expectations?

<A – Bryan Stockton – Mattel, Inc.>: Sure. So, let me start with Max. I would say we're pleased with Max Steel. As we talk about our entertainment initiatives, we really talk in terms of, we're happy with singles and doubles. And if you look at Max's performance in Latin America, where it was truly a re-launch of the brand, our business in Latin America was up double-digits. So we think the Latin American consumer responded to the new Max very well. Just based on that alone, I'd say we would qualify that as a single. I'd say we have some selected markets in Europe where we got some pretty good placement. The brand is gaining traction.

Now, if you look at the United States where a lot of folks on the phone live, you would say, gosh, it doesn't look successful and we'd say well, our challenge in the U.S. has been getting the boys to engage with the brand and that's been a challenge due to the, I'd say, the penetration that we're getting on the content. We need to figure out a way in the U.S. and some more markets how we can expand boy engagement. And we've got some ideas on that. Recall that, Max was not built in a single season in Latin America, and we did a lot of things to create the brand. So we like that. For example, in the U.S., Max is now on Netflix. So that's a great way for us to get more boy engagements. So we like where we are. Again, I would say it's a single.

Ever After High, I know you're all tired of me saying this, it's too early, if I look at the actual timing of the launch of Ever After High last year versus the launch of Monster High. It's a couple of months later when you look when it got to store or when the book dropped and things of that nature, but what we like is a couple of things. Number one, we like the girl engagement that we see so far. We track girls online and the amount of time they are spending and so the engagement with girls looks very encouraging. We're also pleased with retailer support. Recall with the timing of this, the retailer support tended to be, I would say, more promotional in nature as we were a little lateto be in line on shelf, but we got we think terrific support lined up for 2014. So I think the real thing that we're going to focus on is we are encouraged that we got connection with girls, now we have to work on conversion and that's really what we're looking at for 2014.

Operator: Next we have a question from Sean McGowan of Needham & Company. Please go ahead.

<Q – Sean McGowan – Needham & Co. LLC>: Thank you, guys. Appreciate it. The question is generally regarding share, so if you look at NPD data for the fourth quarter and the holiday season, it doesn't look like the industry was down as much as Mattel was, so what are the categories – but first of all, that suggests that whatever the reasons you're citing, traffic and online and whatever else is not really industry wide. So what is it that made Mattel underperform and what are the categories in the industry that are doing well? And how quickly can you get in those?

<A – Bryan Stockton – Mattel, Inc.>: Hi. Good morning, Sean. As we take a look at our performance, obviously, we did not grow as fast as the category did, so you can do the math, I'm sure, on that as well as we can. But what we try to do when we grow share, it seems when we create innovation and news in a category, the category grows, our brands grow. I would point towards our doll portfolio strategy as an example of that where we've been fundamentally driving a lot of the category growth through the combination of Barbie and Ever After and Monster High and Disney Princess and American Girl for example.

So when we do that well, the category grows. When the category grows, that's generally when our shares grow. So that's why we are spending so much time on we need to make sure we have the right innovation and the product. We're connecting with the consumer digitally, television, whatever. And from a promotional and retail standpoint, we need to make sure we're executing well, we're spending our money well. So that seems to work we think well. There are a couple of pockets for example, electronics was growing this year, and arts and crafts grew, we do some arts and crafts for example with American Girl. We don't have a big entry in that. Electronics has always been a tough one. We found that competing in hardware is not something that we're particularly good at, there are a lot of people who do very, very well.

Interestingly, I know tablets got a lot of play early on in the season. As we look at the NPD data on tablets and remember we can track kids tablets on NPD, it looks like overall tablets were flat. What did happen is the less expensive more highly promoted tablets were a success and looks to us it was at the expense of higher priced perhaps more feature laden tablets. We don't have access to a lot of information on, I'll say, the more adult like products like an iPad mini, for example, but at least in terms of tablets in kids, it didn't seem to have much impact.

One of the things that we like about our Radica brand is it does tend to do electronic toys and we're going to continue to focus on that. So yeah, it was an interesting year in toy. We think we're still well positioned. We got a great portfolio of brands and customers and countries. We didn't execute as well as we would have liked to. We're going to continue to invest in our cores because we always talk about we're going to grow through our core brands. We're going to grow through creating new brands like Monster High and Ever After High. We've got tremendous partnerships with people like Disney and Warner Brothers and Nickelodeon, and we're going to continue to invest in international.

So there is a lot for us to work on to have our business grow and I think to capture the opportunity we see in front of us.

<Q – Sean McGowan – Needham & Co. LLC>: Okay, thanks. If I can drill a little deeper on preschool, this is not going into the [indiscernable] or I guess or more of the so called birth dearth and now you've actually hit the age range for traditional toys, but preschool obviously has been hit the hardest on that. So can you talk a little bit about what you think is happening with your share in preschool and infant products?

<A – Bryan Stockton – Mattel, Inc.>: Sure. I'll start with what I mentioned earlier. We think that some of the – I'd say the more tactical things in marketing that we hoped would have a better impact, things like improved connection with moms, packaging, that would help us. But again with hindsight being 20:20, as we look at the innovation in our product line relative to competition out there, frankly we just didn't have the innovation, and that's what hurt our share in Fisher-Price. And again, we were very disappointed in that, and you can imagine the team in Buffalo and New York is working very hard to amp up our innovation for 2014.

But what I would also tell you is remember, we are a global company and we think globally and so when I mentioned China for example with the one child policy being loosened there, we like where we are. From the positioning standpoint in China, we're a strong brand. I mentioned we're number one in Parents magazine there. We should see some growth in the birth rate in China and there are an awful lot of people there. So we think these emerging markets and developing markets are really the wave of the future for Fisher-Price.

And as we always say, we have to take care of North America which is the home of Fisher-Price, we can't turn our back on that, but we're certainly going to try to replicate with more frequency, the Soothe & Glow Seahorse kind of success that we saw in China.

<A – Kevin Farr – Mattel, Inc.>: Yeah, So I think, Sean, the birth rate is impacting us in mature markets, but I would say that should be offset by innovation, better connection and conversion with mom. And I think in addition to higher birth rates outside the U.S., I think a real driver of our Fisher-Price business, and we've said this many times, is the opportunity with regard to the emerging markets and the developing markets of more families becoming middle class families and having more discretionary income. I think that's a big growth opportunity for us in Fisher-Price as we said and Thomas as they're under-developed outside the U.S.

<Q – Sean McGowan – Needham & Co. LLC>: Good. Thank you both.

Operator: The next question is from Gerrick Johnson of BMO Capital. Please go ahead.

<Q – Gerrick Johnson – BMO Capital Markets (United States)>: Hey, good morning guys. Now that 2013 is over, with the benefit of hindsight, did you realize the accretion you're expecting from the HIT acquisition?

<A – Bryan Stockton – Mattel, Inc.>: We love the HIT acquisition and for a couple of reasons, we always say we want to buy the right brand at the right price at the right time, and we believe we did that. We spent an awful lot of time last year on Thomas doing a couple of things. Number one was improving execution in the marketplace, that was very good, and we talked about again PBS and Televisa. We prepared for the launch of Wood, and we're very pleased with our Woodresults, that's primarily historically been kind of a North American product and we know based on the popularity of that product, there is global opportunity for us to expand in Wood.

Also recall that, moms tell us that Wood is sort of the entry point into the brand, so it was really important for us to do that well. So we like where we are on that. And we're continuing with the rest of the other brands that we have in the portfolio, trying to understand what we can do with them, whether it's Mike the Knight or Fireman Sam. So we got a lot going on there. And we've got just tremendous people there at HIT. They are fantastic storytellers and I think one of the things we're also looking at is using some of that talent to help us, for example, on Fisher-Price and see how we can bring their storytelling talents to bear on brands like Little People for example.

<A – Kevin Farr – Mattel, Inc.>: Yeah, and I think also the other brand that we like a lot in that portfolio was Bob The Builder, and I think with regard to that, that's an opportunity for us as we look to the future.

<Q – Gerrick Johnson – BMO Capital Markets (United States)>: Okay. And this maybe more of a Toy Fair question, but I'll ask now anyway. So I'm hearing a lot about marketing and promotion is the reason for weak POS, but the hottest toy product this year was Rainbow Loom from Choon's Design out of nowhere Michigan. They don't exactly have a huge marketing budget. No content, but it was new, innovative and yeah, low tech. So what I'm getting at here is, could there be more of a development innovation problem rather than a marketing one. Has there been any sort of change in your product development? Is content and entertainment the answer? How do you fix the innovation problem?

<A – Kevin Farr – Mattel, Inc.>: Hey, Gerrick, I was hoping we've been more clear with that in our comments. As we look particularly at Fisher-Price and Barbie for example, we need to amp up the innovation, it's clear. When we look at, for example, Barbie, the Dreamhouse was a fantastic toy.

It's the best Dreamhouse we've ever done and I can go through all the gotchas and gimmies it has, but it was a fantastic product and it's sold extraordinarily well because it was an innovative product. So we know when we innovate, we do better. So we're working on innovation, particularly on Barbie and on Fisher-Price and across all of our brands. So that's important to us, also the marketing.

What's clear to us is the landscape is changing. We need to understand how and literally we're going through what do you want to spend on, where do you spend it and when do you spend it? Those are really the way that we're thinking about marketing. So, is it both? And I hope we've been clear maybe we weren't.

<A – Bryan Stockton – Mattel, Inc.>: Yes. And I'd reiterate that. For the categories that grew, like Youth Electronics and also with regards to arts and craft, it was basic innovation in arts and crafts with Rainbow Loom and I think with regard to even in Youth Electronics, with regard to a couple of products in that category. So we also agree with you with regard to product innovation and just as important is marketing innovation.

<Q – Gerrick Johnson – BMO Capital Markets (United States)>: Okay, great. Looking forward to see you guys at Toy Fair. Thanks.

Operator: The next question is from Michael Kelter of Goldman Sachs. Please go ahead.

<Q – Michael Kelter – Goldman Sachs & Co.>: I wanted to ask that your gross margins have been great over the last few years and including in this quarter and a good part of that seems to be a newfound pricing power that you have with 20% cumulative pricing from 2008 to present based on prior disclosures. So, I guess my question is, is it possible that some of your recent weakness in the core brands is because you've taken pricing too far given the environment and getting the gross margins up is maybe at the expense of sales?

<A – Kevin Farr – Mattel, Inc.>: Hey, good morning, Michael. I would say we've been very deliberate in how we think about pricing. We think about the innovation in a product, we think about the branding in a product. And so, we spend a lot of time thinking about how that works. And I'd say probably the best example of that, frankly, is the Dreamhouse. That was frankly a $150 toy and that was fantastic. It was the number one selling Barbie item we had. So, I think, our lessons learned in the toy business is, if you have a great toy, it's really not that price sensitive. So I go back to, we were short on innovation. Because of some of the changes in what's going on at retail, I think some of our promotional spending was not as effective.

As we've been saying here, if store traffic is down 15%, it's hard for an end-cap to work as hard in 2013 as it did in 2012. So, there's a lot going on in terms of where we are in share, but I would say in terms of pricing we spend a lot of time on it. We've been very focused on gross margins through cost reductions, through mix management, and being very mindful of how we price. Remember, pricing is the last thing that we do. We look at our basket of cost, we try to offset it through other cost reductions, and when you go through all that, the remainder is essentially what we try to price to cover.

<A – Bryan Stockton – Mattel, Inc.>: Yes, and I think from a broader perspective, I think, that we are living in an inflationary environment and costs are going up, and I think if you looked across categories you'd see that prices have gone up over the years and that's true for the toy category too. So, I don't believe our issue is our pricing. As we said, I think some of it has to do with product innovation and marketing innovation.

<Q – Michael Kelter – Goldman Sachs & Co.>: And how should we be thinking about gross margins in 2014 in light of the excess inventories that are entering the year? Should we be expecting or prepared for at least gross margins to be down since you'll have reduced absorption at the plants?

<A – Kevin Farr – Mattel, Inc.>: I think with respect to gross margin, we don't give guidance. I think we are operating in an inflationary environment, but we are pricing for that inflationary environment mid-single digits. We took that pricing increase effective January 1, 2014. And I think what we've said earlier today, consistent with our goal for the year to deliver top quartile TSR of 6% to 8% in operating profit, gross margin is an important element in that equation. And assuming the mix continues, coupled with low volatility in cost and foreign exchange, we expect gross margins are low-to-mid 50%s in the near term.

<Q – Michael Kelter – Goldman Sachs & Co.>: And then the other thing on margins, one thing you did give guidance on was at your Analyst Day that SG&A would be up modestly in 2014. Is that still what you're thinking that it's going to be up this year or have you adjusted and found ways to possibly reduce G&A in 2014?

<A – Kevin Farr – Mattel, Inc.>: Yes, again Michael, we don't give guidance. We evaluate SG&A spending in the context of delivering annual operating profit growth of 6% to 8%. We've got two tailwinds heading into 2014. Our second quarter 2013 asset impairment charge of $14 million and we're targeting flat spending on strategic growth initiatives, which have been increasing over the last few years, but they're now largely embedded in our current cost base.

We also have a headwind in incentive compensation assuming we achieve our targeted levels of bonus payouts in 2014. We didn't pay out the target level bonuses this year because we were very disappointed in our fourth quarter results and disappointed in our full year results, although we did grow and delivered good profits.

In the fourth quarter, we saw some momentum in our core O.E. 3.0 cost savings initiatives as we exceeded our $50 million goal for the year, which is consistent with our recent increase of total savings targets for the program by $25 million to a $175 million of cumulative savings by the end of 2014. We see additional opportunities in O.E. 3.0, so we're going to continue to lean into this program in 2014.

<Q – Michael Kelter – Goldman Sachs & Co.>: And lastly, if you don't mind, if you could just take a minute to talk about Monster High POS trends in the U.S. and then to the extent you have them around the world. Is there any reason to believe that Monster High is kind of peakish at this point, either domestically or elsewhere, and how are you gauging the risk that it could fall into decline versus transitioning into an evergreen?

<A – Bryan Stockton – Mattel, Inc.>: Yes, Michael, we're pleased with the Monster High. We don't get into a lot of brand specifics in terms of POS numbers, but what I would tell you is that Monster High in the fourth quarter as well as for the year had strong double-digit increases in POS, both in the U.S. and in international. And recall that it's about 60% international and that's good. It's now about a $1.5 billion brand globally. So, we think that's good.

One of the challenges we have with Monster High is, it is now a very large brand, and as you can imagine with the law of large numbers, it's going to get increasingly difficult to post huge POS gains, but we really like where we are. $1.5 billion business at retail, growing at nice POS clip we think is a good place to be. So we were successful last year. We're going to continue to invest in it this year. We've got great programs, great characters, more accessories. So, it's a brand that we like and we'll keep investing in.

<Q – Michael Kelter – Goldman Sachs & Co.>: Thank you very much.

Operator: The next question is from Felicia Hendrix of Barclays. Please go ahead.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Hi. Thanks for taking my questions. Bryan, can we just stick on that point of Monster High for a second and when you talk about strong double-digit POS in the quarter, are you talking about the entire brand or just the dolls, because I'm not sure that's what the NPD data was showing. So can you parse through that?

<A – Bryan Stockton – Mattel, Inc.>: When I'm talking about Monster, I'm talking about the brand is up double-digit and it's up in dolls and it's up in consumer products. So we like where it is.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay. Thanks. Just to move on actually to the [indiscernible] of my main questions. With the industry evolving and you mentioned in all of your releases that you put out this morning, certainly there were more sales through the e-commerce channel. Can you just remind me of how much your retail channel goes through online and if you're working to increase your distribution there, because clearly that's where the consumer is headed?

<A – Bryan Stockton – Mattel, Inc.>: I don't think we really give out a number on that, but what I would tell you is I think the estimates for the toy industry are somewhere around mid double-digits to teens, like 14, 15, 16 somewhere in that range. And, again, we have invested heavily in this channel. We were one of the early people in it. We continue to invest. And when I say invest, it's promotional dollars with the retailer, but it's also getting the products right and the packaging right for that. Again, I always go back to early days when we went into grocery/drug and we did a lot of special programs. We're doing that here. That's the trend we see around the world and we're going to continue to partner with retailers for products and digital images and links and all the stuff that you really need to do to be effective in that channel.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay, great. And then my final question is on marketing. You guys I think laid out pretty well how you're not happy with how you've marketed your products in the quarter for lastseason and promotions and how you have to rethink that. And at your last Investor Day you talked about Fisher-Price and how the marketing programs there really got brand awareness increased with the moms, but it didn't compel the moms to kind of get up and buy the product and you're evolving it there.

For a mature leading toy company, those comments just seem a little curious to me because you should be on the cutting edge of your marketing and promotions and kind of have your finger on the pulse of what the consumer wants. And just wondering, had something changed in the marketing trenches or do you just feel like the company needs to keep upbetter with the times? Again, in the leadership position that you're in, wondering if you could address that?

<A – Bryan Stockton – Mattel, Inc.>: Sure. Well, if you think about marketing, it covers a whole variety of things and if I look at Fisher-Price in particular, we spend a lot of time focusing in on getting the brand position properly with moms, not just here in the U.S., but again, the China example and that requires a lot of work from an advertising standpoint, whether it's television, print, digital, you name it. And I do feel like, we're connecting with moms well. I think particularly what was a challenge for Fisher-Price for the year and particularly in the fourth quarter again, we invested a lot of money in Fisher-Price for inventory and promotions and in-store promotions with retail.

Fisher-Price like Barbie is a pretty heavily promoted product at retail and as consumers spend less time in-stores and there were fewer consumers in-stores, we believe that Fisher-Price and Barbie may have been more impacted by a reduction in shopper traffic than some of our other brands. So when I look at that, as I said, we really need to take a step back, take a look at what happened, what do we think consumers are going to be doing next year because I think this is a surprise not just for us, but probably other companies in the toy business and other companies in general, but we're going to have to take a look at how we manage that next year, so that we get conversion digitally online and we get better conversion in-store.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay. And just final question on China and Russia, you're doing really well there. I think you've done a great job in the past kind of laying out for us where the upside is there. Just wondering where – and this might not even be the right way to look at it, but where are you in terms of the low-hanging fruit there in both of those markets? I know there's a lot more white space to penetrate, but does it get harder at some point? In other words, when are you anniversarying the easy growth in those kinds of markets?

<A – Bryan Stockton – Mattel, Inc.>: Well, having spent eight years as the head of international in both of those markets, I don't know that even the low fruit is easy growth. It takes quite a bit to establish a solid distribution base and to gain scale in those markets. And I would tell you that we're still in the early stages of development in those markets, in terms of getting scale with customers, scale with our advertising, scale with product. So I can't give you, I think, the answer you're looking for, but what I would tell you is that we still see a lot of growth opportunity in both of those markets, and the growth is going to come through expanding into new cities and geographies in those markets. It'll come as more modern retail trade develops in those markets. It'll come as our brands grow and we get continued expansion of engagement and conversion which we have proven I think to do well in both markets. So, we're pleased with it. There's a lot of work ahead of us. Kevin, do you want to add anything?

<A – Kevin Farr – Mattel, Inc.>: Yeah, and I'd just add also I think, as I said earlier, as the emerging middle-class grows and I think also as that emerging middle-class continues to have more discretionary income because even in places like China and Russia, their per capita spending on toys is tiny compared to what we see in mature markets. So, I think there's a lot of growth over the near term and longer–term to really drive growth for us in those markets.

<A – Bryan Stockton – Mattel, Inc.>: Yeah, so basically boils down to distribution gains and per capita spending, those are really the two keys.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay. Thank you so much.

Operator: The next question is from Linda Bolton Weiser of B. Riley. Please go ahead.

<Q – Linda Bolton – B. Riley & Co. LLC>: Hi. I was wondering, in terms of your balance sheet and share repurchase plans, do you think you would tend to get even more aggressive on that front given that your stock is down? Or would you tend to hunker down and protect your balance sheet and maybe not be as aggressive on that front? You did an awfully lot of share repurchase in 2013. So can you give us some feel for going forward on that?

<A – Kevin Farr – Mattel, Inc.>: Yeah. I think, Linda, we've got a pretty good history of deploying capital and when I look at it, we've got a long standing capital investment framework. And as you know, a very important part of making our top third to top quartile TSR is effective capital deployment to hit that top third to top quartile. So, we intend to continue to deploy that excess cash in our historical capital investment framework to make share repurchases and targeted acquisitions. We'll continue to be disciplined and opportunistic in deploying our cash to ensure enhanced shareholder value.

<Q – Linda Bolton – B. Riley & Co. LLC>: Okay. And then given that you've got sort of these near-term challenges, do you think you would consider even additional cost cutting programs? You compare yourselves sometimes to Colgates and Procters of the world. And those companies will usually step up and even add additional programs to their cost cutting when they're facing headwinds. Is that something you would consider? Or you're just going to kind of stay the course with O.E. 3.0 that you've got in place right now?

<A – Kevin Farr – Mattel, Inc.>: Yeah. I think I said earlier, in the fourth quarter, we saw some momentum in our current O.E. 3.0 cost saving initiatives. We exceeded our goal for the year which was $50 million by about $10 million. And we have already upped the program late last year by $25 million to $175 million of cumulative savings by the end of 2014. We do see additional opportunities in O.E. 3.0, so we'll continue to lean into this program into 2014.

<Q – Linda Bolton – B. Riley & Co. LLC>: Okay. And then just finally, I know that you're still shooting for that 6% to 8% operating profit growth long term, I think you've said that Bryan, but did you clarify whether you think you can get to at least 6% in 2014?

<A – Kevin Farr – Mattel, Inc.>: I'll take that question Linda. We don't provide guidance, but we're still targeting our long-term top third to top quartile TSR. And as our 2013 results were below expectation, we need to execute better in 2014, so it is our goal. Our near-term focus to achieve that goal is to improve domestic POS, work through retail and company-owned inventories. And as I said before make our advertising and trade spending work harder for us next year. As we develop our annual financial plan for 2014, we're going to balance the key P&L levers across the business to achieve these goals. So clearly, it's a focus both in the near-term and longer term to deliver 6% to 8% operating profit on an annual basis.

<Q – Linda Bolton – B. Riley & Co. LLC>: Okay. Thanks very much.

<A – Drew Vollero – Mattel, Inc.>: Operator, we have time for one quick last question.

Operator: Thank you. Our last question will be from Stephanie Wissink of Piper Jaffray. Please go ahead.

<Q – Maria Vizuete – Piper Jaffray, Inc.>: Great, thanks so much for taking our question. This is actually Maria Vizuete on the line for Stephanie. I was just wondering if you can talk a little bit about your efforts in improving packaging and how that's resonating, whether that's in the Fisher-Price brand or what we seem to be seeing in the American Girl brand with more touch and feel packaging and play displays?

<A – Bryan Stockton – Mattel, Inc.>: Yeah. Good morning. Our packaging efforts really focus in two areas. If I think about Fisher-Price, it was to improve our impact at shelf. And in the United States where we have a quite a bit of shelf space the old package worked just fine, but it did not work well internationally. And so, we really worked hard given the growth opportunity in international to get the packaging right there. So a lot of the efforts we have are to make sure we have the impact on the shelf.

We're also spending a lot of time on trying to improve our packaging from both a cost and environmental standpoint. A large part of what we're doing in O.E. 3.0 is trying to figure out how we can use less packaging. Again, we think that's good from an environmental standpoint and it's good from a cost standpoint and it should be good from a consumer ease of opening standpoint. So, those are really the two areas that we're focusing on.

<Q – Maria Vizuete – Piper Jaffray, Inc.>: Great. Do you mind if I could just sneak one more in, sorry. Can you just provide us with maybe the longer term operating margin goals for international within the emerging markets, maybe just where it is today and where your plan is for the future. Thank you so much.

<A – Kevin Farr – Mattel, Inc.>: Yeah. Again, I think what's consistent for us is across the company, we're looking to improve our operating margins. We're in the 15% to 20% range as a percentage of net sales. Right now we're at 18%. Our goal each and every year is to sequentially improve that through sales leverage and tight control of expenses and dropping that to the bottom line. And I think that's true both for mature markets and developing and emerging markets. And I think part of it is in the emerging markets it's probably a little bit below that level, but as we gain scale, we'd expect to deliver higher margins over time consistent with the company average. And I think when we look at markets like Russia and China that have scale that's even bigger than any market around the world, we see opportunities over the longer term to really improve our overall company margin with those margins driving it in those countries.

Drew Vollero, SVP-Investor Relations & Corporate Strategy

Okay. Thank you. There will be a replay of this call available beginning at 11:30 a.m. Eastern Time today. The number to call for the replay is area code 404-537-3406 and the pass code is 29340428. Thank you for participating in today's call.

Operator: Ladies and gentlemen, thank you for participating in today's presentation. This does conclude the conference and you may all disconnect. Everyone, have a great day.