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Q1 2019 Mattel Inc Earnings Call

EVENT DATE/TIME: APRIL 25, 2019 / 9:00PM GMT

CORPORATE PARTICIPANTS

David Zbojniewicz *Mattel, Inc. - Securities Analyst*
Joseph J. Euteneuer *Mattel, Inc. - CFO*
Richard Dickson *Mattel, Inc. - President & COO*
Ynon Kreiz *Mattel, Inc. - Executive Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Andrew Edward Crum *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*
Arpine Kocharyan *UBS Investment Bank, Research Division - Director and Analyst*
Eric Owen Handler *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*
Felicia Rae Kantor Hendrix *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*
Gerrick Luke Johnson *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*
Gregory R Badishkanian *Citigroup Inc, Research Division - MD and Senior Analyst*
James Andrew Chartier *Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst*
Linda Ann Bolton-Weiser *D.A. Davidson & Co., Research Division - Senior Research Analyst*
Michael Ng *Goldman Sachs Group Inc., Research Division - Research Analyst*
Timothy Andrew Conder *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*
William Michael Reuter *BofA Merrill Lynch, Research Division - MD*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Mattel First Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to introduce your host for today's call, Mr. Dave Zbojniewicz, Head of Investor Relations. Mr. Zbojniewicz, you may begin.

David Zbojniewicz ***Mattel, Inc. - Securities Analyst***

Thank you, operator, and good afternoon, everyone. Joining me today are Ynon Kreiz, Mattel's Chairman and Chief Executive Officer; Richard Dickson, Mattel's President and Chief Operating Officer; and Joe Euteneuer, Mattel's Chief Financial Officer. As you know, this afternoon, we reported Mattel's 2019 first quarter financial results. We will begin today's call with Ynon and Joe providing commentary on our results, and then we will provide time for Ynon, Richard and Joe to take your questions.

To help guide our discussion today, we have provided you with a slide presentation. Our discussion, slide presentation and earnings release reference non-GAAP financial measures including gross sales, adjusted gross profit and adjusted gross margin; adjusted other selling and administrative expenses; adjusted operating income or loss; adjusted earnings or loss per share; earnings before interest, depreciation and amortization, or EBITDA; adjusted EBITDA; and constant currency. Please note that the sales figures referenced on this call will be stated in constant currency.

In the first quarter of 2019, we modified our gross sales reporting structure and presented revenues by categories and reorganized our international sales regional reporting structure. In addition, we have provided supplemental gross sales disclosures by brand. Further detail regarding the brands that are included in each category as well as the changes made to the international sales regional structure can be found in the exhibits to the earnings release and Note 23 to Mattel's quarterly report on Form 10-Q for the first quarter of 2019. Prior period amounts have been reclassified to conform to the current period presentation. 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 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 materially from those projected in the forward-looking statements. We describe some of these uncertainties in the Risk Factors section of our 2018 Annual Report on Form 10-K, our 2019 quarterly reports on Form 10-Q, our earnings release and the presentation accompanying this call and other filings we make with 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, except as required by law.

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

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

Thank you, everyone, for joining our first quarter earnings call. It was another strong quarter, demonstrating meaningful progress in the execution of our strategy, a significant improvement in profitability and a solid performance in our top line. The positive momentum exiting 2018 has continued and is reflected in our operating results. While this is a multiyear turn around and there is still a lot of work to do, I continue to be inspired by the commitment, resilience and capabilities of our organization as we transform Mattel into an IP-driven, high-performing toy company.

Our first quarter results set a solid foundation for the year, and we remain on track to achieve our goals to restore profitability and regain top line growth in the short to midterm and capture the full value from our IP in the mid to long term. While the first quarter may be small seasonally in terms of revenues, we did well in the face of a number of adverse comparisons, including the timing of Easter and foreign exchange as well as the evolving retail environment due to the Toys''R''Us liquidation.

Our first quarter results exceeded expectations with significant improvement across the P&L. Some of the more notable financial highlights in the first quarter compared to the last year include: gross revenues were up 2% in constant currency; adjusted gross margin was 38%, up 670 basis points; adjusted operating income improved by $147 million; adjusted EBITDA improved by $136 million; and our operating cash flows improved by $81 million.

Moving on to our gross sales by category. Our Doll category gross sales grew 3% in constant currency driven primarily by Barbie, which was up 13% as it kicked off its global 60th anniversary celebrations, and continued momentum in Polly Pocket partially offset by declines in American Girl. As it relates to American Girl, we are confident about the potential of the brand. This summer, some of the work on our plan will be revealed with a much broader merchandising and content strategy launching this fall. This will include new product introductions and line architecture, the launch of additional experiences in our New York and Chicago flagship stores and a completely new digital consumer engagement platform. All this will be supported by a comprehensive marketing plans and YouTube content with influencers. We will share more with you as we get closer to the launch dates.

Our Vehicles category grew 2% in constant currency with Hot Wheels up 9% and Matchbox up 13%. The strong performance was partially offset by the expected decline of Cars. Hot Wheels finished its biggest first quarter in history, and the brand continues to expand its consumer engagement beyond the toy aisle, becoming the #1 boys toys channel on YouTube.

Our Infant, Toddler and Preschool category was down 11% in constant currency with Fisher-Price and Thomas & Friends revenues down 5%. The category was further impacted by the expected lower sales for some of our partner brands. As you know, Fisher-Price announced a voluntary recall of its Rock 'n Play Sleeper, working in partnership with the Consumer Product Safety Commission. I want to emphasize that Mattel has always held the safety of children as its highest priority, and we take these matters very seriously. Fisher-Price has a long proud heritage of prioritizing safety as its mission, and we'll certainly continue that tradition. Joe will walk through details related to the financial impact of the voluntary recall.

Notwithstanding the recall impact, we feel confident about the trust consumers have in the brand, the direction of the franchise and its growth potential. At the recent New York Toy Fair, Fisher-Price won 2 Toy Industry Association's Toy of the Year awards. We're excited to introduce our new product offerings, which include 3 new lines and the reintroduction of Rescue Heroes, one of our classic properties.

Action Figures, Building Sets and Games together grew 22% in constant currency, benefiting from the shipping of our Toy Story 4 product line in advance of the second quarter movie release, continued strength with Jurassic World and UNO as well as growth in MEGA. Jurassic World continues to resonate on the shelf, and we were also honored to win another Toy of the Year award in the Action Figure category, benefiting from a very successful partnership with Universal.

From a regional perspective, our performance was encouraging with growth in both North America and International, including a notable improvement in Asia Pacific. Gross sales in North America grew 6% in constant currency. This was another solid quarter for the region across multiple categories with most customers performing above expectations. Our team and retail partners have collaborated very effectively in planning and executing the business absent Toys"R"Us.

International gross sales grew 4% with EMEA up 4%, Latin America up 9% and Asia Pacific down 3%. Although the European toy market is also experiencing significant disruption at retail, we continue to see growth in several key European markets. Our regional teams have proactively adjusted our channel strategy and further developed our omnichannel capabilities. We also maintained our strength in Latin America, focusing our efforts and growing in the region's 2 biggest markets: Mexico and Brazil. Our focus on China is also seeing progress, and we continue to expect to work through the remaining excess retail inventory by midyear.

It is worth mentioning that our worldwide gross sales increased 2% in constant currency, net of a 3% negative impact from American Girl. This speaks to the positive top line momentum of our overall portfolio, especially considering the adverse comparisons in the quarter. While it is still very early in the year, we're off to a positive start.

As you know, our Structural Simplification program has been a key driver towards reshaping our operations and restoring profitability. We continued to track well and ended the quarter with $610 million of run rate savings. The progress we're making is clearly reflected in our operating results, and we reiterate our expectation that we will exceed our goal of $650 million run rate savings exiting 2019.

We have also begun to execute on our Capital Light model. As mentioned before, this is a multiyear comprehensive effort which encompasses optimizing our manufacturing footprint, increasing productivity of our plant infrastructure and achieving efficiencies across the entire supply chain. As part of this, we are selling or consolidating some of our owned and operated manufacturing facilities while retaining those where we have a significant market advantage on cost, quality and service. In addition, we are rebalancing our global third-party manufacturing network. Given the time line of this effort, we expect to start realizing incremental savings from our Capital Light model in 2020.

I want to emphasize that while we have been making significant cost improvements, we've been very mindful of protecting and enhancing the commercial and creative capabilities of the company. It is evident that our strategy to become an IP-driven, high-performing toy company is demonstrating tangible results. We are making meaningful progress on our short to midterm priorities to restore profitability and regain top line growth and have been laying the groundwork to capture the full value of our IP in the mid to long term.

Mattel Films continues to build momentum. In the quarter, we announced the first-ever live-action feature films for American Girl and View-Master, each in partnership with MGM. To date, we have announced a total of 5 film projects, with more to come. In February, Mattel Television announced a slate of 22 television programs that we're taking to market. The animated and live-action television programs in development are based on our iconic and globally recognized characters and franchises as well as new IP and will be made for multiplatform distribution.

Our Franchise Management team is executing on several fronts via strategic partnerships, digital engagement and consumer product opportunities. For example, in January, we launched UNO, our first mobile game collaboration with NetEase, to players globally on iOS and Android with the free app available through the App Store and Google Play.

2019 started well with a solid performance in our top line and significant improvement in the bottom line. This is the third consecutive quarter achieving our immediate priority of restoring profitability with gross margin, operating income, EBITDA and EPS all moving meaningfully in the right direction. The organization is also coming together as we are building a winning culture that is performance-driven and results-oriented with creativity and innovation at its core. Our mission is to create innovative products and experiences that inspire, entertain and develop children through play, and our focus remains on methodical execution and creating long-term value for our shareholders.

Now I would like to turn the call over to Joe who will cover the financials in more detail and reaffirm our full year guidance.

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Thank you, Ynon, and good afternoon, everyone. Our operating results in the first quarter reflected strong performance and significant improvement across key financial metrics. In addition to gross margin, operating income, EBITDA and earnings per share, which Ynon just mentioned, we also improved our working capital and operating cash flow. Importantly, we are demonstrating our ability to consistently execute on a quarter-by-quarter basis.

Looking at our first quarter results. Gross sales were down 2% as reported and up 2% year-over-year in constant currency. The increase in gross sales in constant currency was driven by Dolls, Vehicles and Action Figures, Building Sets and Games, partially offset by a decline in Infant, Toddler, Preschool. As expected, because of the shift in Easter, POS for Mattel was down low single digits in the quarter, excluding the impact of Toys"R"Us.

As Ynon mentioned, Fisher-Price recently announced a voluntary recall of the Rock 'n Play Sleeper, which was conducted in partnership with the Consumer Product Safety Commission. The estimated total impact of the voluntary recall on our operating income in the quarter was $27 million. This consisted of a negative impact to cost of sales of $22 million based on the impairment of our owned inventory and estimated consumer return rates and a $5 million net sales reduction related to returns from retailers. Separate from the loss of future Rock 'n Play product sales, which I will discuss more in a few minutes, there may be additional recall-related expenses in the year but we do not expect them to be material.

Our reported gross margin was 34.8% of net sales, up 390 basis points from the 30.9% in the first quarter of 2018. This included the negative impact of the $27 million in estimated costs related to the voluntary recall and the benefit from the absence of the 2018 Toys"R"Us net sales reversal of $30 million. Excluding the cost of sales impact of the voluntary recall, our adjusted gross margin was 38% of net sales, up from 31.3% in the first quarter of 2018. The significant improvement of the 670 basis points was primarily driven by approximately 450 basis points of realized savings from Structural Simplification and 300 basis points from the benefit of the absence of the 2018 Toys"R"Us net sales reversal. This was partially offset by 150 basis points of product cost inflation.

Advertising as a percent of net sales was 10.1%, which was flat year-over-year. Reported SG&A was $301 million, which improved by $123 million or 29% year-over-year. Adjusted SG&A was $293 million, an improvement of $106 million or 27%. This year-over-year improvement was primarily driven by the benefit of the absence of the Q1 2018 Toys"R"Us bad debt expense of $57 million and $35 million of realized savings from Structural Simplification.

Adjusted operating loss was $100 million, an improvement of $147 million compared to a loss of $247 million in the prior year. Adjusted EBITDA was a negative $26 million, an improvement of $136 million compared to a negative $161 million in the prior year. This substantial improvement in both adjusted operating loss and adjusted EBITDA were driven by Structural Simplification savings and the benefit from the absence of the Q1 2018 Toys"R"Us sales reversal as well as the related bad debt expense. Our income tax expense was $6 million in the first quarter and includes a number of discrete tax items.

Moving to the balance sheet. Due to the adoption of the new lease accounting standard in 2019, we now include assets and liabilities related to leases on the balance sheet. We ended the first quarter with a cash balance of $380 million. In the quarter, our working capital improved slightly year-over-year as a result of accounts receivable decreasing 8% driven by improved collections. This improvement resulted in a 4-day reduction in our days sales outstanding to 82 days. Additionally, owned inventory decreased 9% as a result of our continued efforts to tightly manage our inventory.

Moving to cash flows. Our operating cash flow usage improved $81 million to $193 million primarily driven by a lower net loss excluding noncash charges and lower working capital usage. We continue to feel good about our capital structure and are confident that we have sufficient liquidity to both run our business efficiently as well as make strategic investments to grow the top line. We have no debt maturities until October 2020. Structural Simplification has been the primary driver of our significant improvement in profitability over the last 3 quarters. And as Ynon said, to date, we have achieved $610 million of run rate savings and expect to exceed our goal of $650 million exiting 2019.

Turning to our Capital Light model. We have concluded an extensive review of our supply chain including the analysis of our 13 manufacturing plants and multiple distribution centers as well as an evaluation of our global third-party manufacturing network. We have begun implementation and are moving quickly but continue to pace our progress thoughtfully without sacrificing safety and quality. We will share key developments as we progress subject to competitive and confidentiality considerations. Given the time line of this effort, we expect to start realizing incremental savings from our capital light model in 2020, which you should see reflected in additional gross margin improvement. We will incorporate expected savings from our Capital Light model in our future guidance.

In the first quarter, we spent $11 million on strategic investments, of which $7 million was part of our operating expenses. These investments were primarily related to our IT transformation and brand growth opportunities.

Now I'd like to review our full year 2019 guidance. Starting with the top line, we continue to expect 2019 gross sales to be flat year-over-year in constant currency, which we assume will be partially offset by a 1% to 3% negative impact from foreign exchange. While we achieved higher-than-expected revenue and improved top line momentum in the first quarter, we are not changing our full year outlook given the vast majority of the year is still ahead of us and taking into account the estimated loss of Rock 'n Play sales of $30 million to $35 million from Q2 through Q4.

We continue to expect our adjusted gross margin to increase year-over-year to the low 40s. We still anticipate adjusted SG&A will be down year-over-year on a dollar and percentage of sales basis as we continue to benefit from the positive impact of Structural Simplification. We still expect the approximately $115 million of Structural Simplification savings related to actions taken in 2018 and 2019 to materialize in our 2019 SG&A expense. We will also benefit from the absence of full year Toys''R''Us net bad debt expense of $32 million recognized in 2018. These positive contributions to SG&A will be partially offset by general inflation, merit increases and our strategic investments. More specifically, we expect about $40 million in strategic investments to impact SG&A.

Overall, we still expect full year adjusted operating income to be slightly positive. We continue to expect adjusted EBITDA to be in the range of $350 million to $400 million. This significant year-over-year improvement is driven by stronger operating metrics, partially offset by approximately $90 million of input cost inflation and $90 million of strategic investments.

I wanted to update you on our full year outlook on taxes, recognizing the difficulty in estimating our full year tax expense given the changes in the U.S. and global tax laws and taking into consideration the continuing impact of the valuation allowance primarily against U.S. deferred tax assets we booked in 2017. Forecasting our tax as quarterly is even more challenging because our tax expense may be either positively impacted or negatively impacted by discrete tax items, which are difficult to predict from both a timing and an outcome perspective.

When calculating our tax expense, discrete tax items must be individually determined and recognized in the period in which they occur. For example, they may relate to a reassessment of prior year tax liabilities because of a tax audit or newly enacted tax law. In addition, the quarterly tax rate may also vary because of the level and mix of income or losses in our foreign jurisdictions.

As I have said, the 2017 U.S. valuation allowance impacts the way we record taxes in 2 ways. During periods of U.S. taxable loss, we don't record an income tax benefit. And during periods of U.S. taxable income, we don't record an income tax expense because the valuation allowance is released to cover the related expense. And because of the valuation allowance, we do not believe that we will be able to record any benefit from U.S. losses in the foreseeable future. The income tax expense recorded in our P&L primarily reflects income tax expense in international jurisdictions where we are not in a pretax loss position. And this is why you will see, as we did in 2018, a tax expense recorded even though we had a worldwide pretax loss.

Having said all this, based on our current outlook, we anticipate our income tax expense to be approximately $75 million to $100 million. And as I mentioned earlier, this outlook may be impacted by discrete tax items from a tax audit or unplanned changes in the tax law. Going forward, due to the seasonal nature of our operating results and the potential outsized impact that discrete tax items may have on any individual quarter, we will continue to provide a general full year tax outlook and update you accordingly.

In closing, we are proud of our performance in the quarter with the resulting benefits clearly materializing across the P&L. We are particularly encouraged that we're showing the third consecutive quarter of improvement in our key profitability metrics. Going forward, we remain focused on consistent progress, methodical execution and the creation of long-term shareholder value.

Thanks for your time today, and we'll now open the line up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Eric Handler with MKM Partners.

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

Wondering if you could talk a little bit about how the profitability of the North America market was versus Europe? And where are you seeing improvements in Europe and your outlook for that region?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Yes, so I mean, North America has benefited from the partnerships we had exited with in the fourth quarter with Walmart, Target, et cetera. The growth in profitability really comes from results across the globe of Structural Simplification. We have used that as the driving force to really increase profitability. And as you look at the benefit of an exiting run rate of $610 million right now, really comes from an expense takeout through gross margin, advertising, SG&A across the globe.

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

I want to add a couple of comments on Europe, which is currently in a -- it's on turnaround. And the team is doing a tremendous job to show a growth of 4% in constant currency in the face of challenging conditions, and the marketplace is nothing short of a great tribute to their performance. And we remain very confident that they will continue to execute well for the year- remainder of the year.

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

Great. Just as a follow-up, can you talk maybe about specific countries? Do you expect to see the U.K. problematic throughout the year? How other areas are doing?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Yes, we haven't really given that specific information on a country-by-country basis. But overall, the turnaround plan is really performing good in most of the countries that we have.

Operator

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

Gerrick Luke Johnson ***BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst***

Thanks for the POS data, but do you have a number for year-to-date including Easter-over-Easter?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

So in regards to Easter, Easter probably -- the year-over-year comparison probably had a negative 3% to 4% impact on POS for the quarter. So think about it this way that POS excluding TRU was down low single digits, had a 3% to 4% impact as a result of Easter. So basically, for the quarter you were up low single digits.

Gerrick Luke Johnson ***BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst***

Okay. Great. And then also regarding Rock 'n Play, do you anticipate legal cost or legal reserve associated with that?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

So right now we're not commenting on any -- you're talking about litigation, so we really don't comment on outstanding litigation. But right now we've provided for all of the returns, et cetera. And any other costs, that miscellaneous related to legal or customer service is something that we believe is immaterial for the year.

Operator

Our next question comes from Arpine Kocharyan with UBS.

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

I wanted to clarify a comment you had in slide where you say tracking to exceed $200 million in realized savings for '19 before investments. I think a comparable comment a few months back was about $129 million of run rate savings, and it seems like your EBITDA guidance is unchanged. Excluding -- offsetting, I guess, the Fisher-Price, about $27-plus million or, call it, $40 million, it seems like you're expecting incremental $30 million, $40 million. Why isn't EBITDA guidance going up if you're tracking ahead of your cost savings flow-through?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

So I think you have to let me give you an update on your cost savings flow-through. So first of all, there's $149 million of actions that happened in '18 that were part of the exiting run rate. In regards to the $129 million for the full year, we've said that $50 million to $75 million would be in-period P&L savings, of which for the quarter we had $68 million of in-period P&L savings, of which probably 3/4 of that is the result of the exiting run rate from 2018. In regards to our overall EBITDA, we ended up EBITDA on an adjusted basis of negative $26 million and have guidance to get to $350 million to $400 million. I think that will be a pretty good effort for the last three quarters of the year.

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

Okay. Maybe I can follow up after the call because I still sort of can't reconcile those numbers. In terms of -- I was surprised to see Toy Story shipments this early. In fact, in your prior guidance at Toy Fair, you have Toy Story specifically falling in Q2. I usually think of this entertainment shipment being 6 to 8 weeks prior to when the entertainment hits theaters. Did it ship a little bit earlier than you expected? Or was there any initiatives that you took on earlier on?

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

Arpine, it's Richard. No, nothing unusual. We ship to plan, and we're executing against the plan that we set forth.

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

So you expected to ship Toy Story in Q1, not Q2?

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

Yes. Yes. But we'll ship in both Q1 and Q2. But yes, we shipped to plan for Q1.

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

Okay. Okay. And then any way to give some indication of the extent of Capital Light model cost savings that you guys are looking at beyond '19 into 2020? I guess which product lines would you outsource? What would the savings look like? I know it's still early on. You probably don't want to share most of that details, but in terms of sort of giving an initial sizing of what those plans look like would be helpful.

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

Arpine, we just completed several months of work, of diligent work, in putting this plan together. And as we've said before, it is a multiyear plan across the entire supply chain end-to-end. We look to optimize the manufacturing footprint, but this is more than that because it's not just about the factories. It's also about the way we'll run the entire system from demand planning all the way to putting product on the shelves with the retailers.

At this stage, we are not sharing specific details because of some confidential or competitive market information, but we will update you as we go forward. But we are saying today that we have started that process. We do expect savings to flow through starting 2020 that will be incremental to our Structural Simplification plan.

Operator

Our next question comes from Drew Crum with Stifel.

Andrew Edward Crum ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP***

Just a point of clarification to start. Joe, I think you said there'll be $30 million to $35 million of sales foregone from Rock 'n Play Sleeper. Is that product specific? Or is that Fisher-Price as a whole? And if it's not, why not any impact on the brand as a whole?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

So we -- the $30 million to $35 million is product specific. As far as -- yes, so it's product specific.

Andrew Edward Crum ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP***

Okay. And no anticipation of any spillover to the brand?

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

Drew, the -- well, the answer is that Fisher-Price has a long heritage of safety and quality going back almost 90 years. It is beloved by children and has the confidence of the parents. We always said that we work very hard to earn this trust, and we will continue to work hard every day to maintain it. So while we will -- there will be -- there may be some short-term impact. We believe that long term, the Fisher-Price brand will remain strong and continue to be trusted by parents all over the world. Obviously, we didn't plan for this. We didn't expect this challenge, and we didn't build it into our 2019 plan. But we are confident in the brand leadership, in the strategy, in the product offering and in the rollout of the new segments later in the year.

Andrew Edward Crum ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP***

Okay. And then -- and maybe for Richard, can you talk about the benefit you saw for the 60th anniversary promo for Barbie? Does that continue through the year? Or maybe if you can talk about some of the other puts and takes for the brand that you need to address through 2019.

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

Sure. Yes, I mean, Barbie's momentum continued certainly into the first quarter. Sales at 13% plus in constant currency is a great reflection of the consistency that we've had. In fact, 6 consecutive quarters of year-over-year growth. The 60th anniversary is off to a great start. Role Model, Dream Gap Project, we had a great event in New York, got incredible accolades all over the world. In fact, landmarks all over the world were lit pink, including the Empire State Building, TOKYO SKYTREE, Mexico City's history museums, Jakarta's history museums, Toronto's CN Tower, Sydney's Bondi Beach. I mean I can go on and on. But we garnered over 6 billion media impressions, which is truly spectacular for any brand, let alone world event.

So we're really excited. We continue the success. The programs will continue to roll out. Our segment specifically on careers is really driving the business. But we've got lots of new product and lots of new items throughout the year and are confident in the Barbie program.

Operator

Our next question comes from Linda Bolton-Weiser with D.A. Davidson.

Linda Ann Bolton-Weiser ***D.A. Davidson & Co., Research Division - Senior Research Analyst***

So your cash flow improvement in the quarter was pretty good. And I guess just in terms of my projections based on your comments about working capital, I think you said being neutral-ish for the year in your CapEx guidance, et cetera. I had projected a small free cash flow for the year, but now I'm thinking maybe it can be bigger, more substantial. So can we just assume that that's going to be used for debt reduction? Or can you just give some thoughts on use of cash now that maybe you'll start to actually generate more substantial amount?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

So we -- at this point, we're not going to give any future guidance on how we're going to use the cash. But obviously, we will look at it at that point in time and use it most effectively for our shareholders.

Linda Ann Bolton-Weiser ***D.A. Davidson & Co., Research Division - Senior Research Analyst***

Okay. And then can you give a little bit of color on how your performance at retail is going in terms of new shelf space or additional new retailers that you've garnered to kind of fill that Toys"R"Us hole? Are consumers becoming accustomed to shopping for your brands in those places? And can you also comment on what your e-commerce growth was in the quarter and your market share positioning there as well?

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

Well, first of all, as you know, the Toys"R"Us situation is largely in the U.S. and the U.K. The rest of the world is currently under new ownership. And as it relates to the U.S., we are benefiting from a very strong relationship, I should say relationships, we have across the board with our core customers and the distribution network we built over many years of work. We sometimes need to remind ourselves that we have a distribution network of more than 140,000 doors in North America out of 375,000 doors worldwide. So it's pretty vast and global.

Following last year, we kept on working closely with all of our partners and are seeing growth in-store and online with the majority of our customers and have specific plans for the remainder of the year. We also are seeing growth with other type of retail, such as grocery stores, drug stores, department stores, value chains and specialty channels and so forth. So we do see that the market has moved on. And the fact that we are up in North America 6% with the adverse comp to last year of Toys"R"Us, without Toys"R"Us, is a strong indication for performance in the quarter for a life without Toys"R"Us. So we moved on.

Linda Ann Bolton-Weiser ***D.A. Davidson & Co., Research Division - Senior Research Analyst***

And how's your e-commerce growth in the quarter?

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

We're not providing specific breakdown. But it is up, and we're satisfied with the direction it's heading.

Operator

Our next question comes from Mike Ng with Goldman Sachs.

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

I just have a few, if I could. The first is just on Asia Pac and China. I think originally you were expecting a low single-digit headwind from China in the first quarter and I think also in the second quarter. It seems like the Asia Pac numbers were pretty good. Did that low single-digit headwind come through? And could you just comment on the health of the China inventory? Do you still expect it to be clean by mid-2019?

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

Michael, yes. We are making good progress in Asia in general and in China specifically. I actually just came back from a trip. We spent time with the team. We went to multiple cities, sat down with our partners and we're definitely seeing progress. We're still down for the quarter, and as you said, we will also be down next quarter. But we do expect to make meaningful progress in the year. As it happens, this week is where we -- is when a new Head of China -- a new General Manager in China just started. So we also have a new strong team in place, and we feel much better about where we are now relative to just a few quarters ago. So obviously, it's still to be delivered. But directionally, we're in a good place.

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

Great. And I just have 2 housekeeping questions. The first is could you make a comment about the health of the channel inventory? And the second is do you still expect Fisher-Price stabilization at the end of the year?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

So in regards to your first question, I mean, we've worked hard over the last couple of quarters to make sure our supply was meeting demand and not the other way around. So we feel very good that we've worked very hard with our retail partners across the globe to maintain the right inventory levels in their locations along with balancing it at ours.

And in regards to Fisher-Price, I think the way to look at it is that the $30 million to $35 million of sales impact going forward for the next 3 quarters on a $1 billion business is roughly a couple low percentage points. We've not changed our guidance overall. Fisher-Price has a little more work to do. And remember, we were confident that the back half of the year is when the new products are coming. And so we stand pat in regards to our belief in Fisher-Price and again, it's so early in the year. It's too early to bring any changes at this point.

Operator

Our next question comes from Tim Conder with Wells Fargo Securities.

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

Joe, just maybe -- there's been a lot of questions and it was alluded to earlier. Can you just maybe walk us through the bridge again from where your EBITDA -- adjusted EBITDA ended to the $350 million to $400 million? That's one. And then if you would have any color on -- maybe by the breakdown of the geographic areas or a couple of the major brands on POS either for the quarter itself or through year-to-date through Easter, any additional color there would be appreciated.

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Sure. So in regards to POS, overall, we talked about excluding TRU. Overall, the company was down low single digits. Dolls overall for the globe was up double digits. Vehicles was down. Hot Wheels was down low single digits. So that's some color. If you're looking for regional basis, you see low single digits down in North America excluding TRU, same thing internationally. So excluding TRU, we're just down low single digits from a POS standpoint.

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

Yes, and I could just add a little bit to the sentiment here as well. When you look at particularly on Barbie and Hot Wheels, the consistency that we're experiencing is really encouraging for the balance of the year. Obviously, core brands like that, up significantly. Barbie, up double digit. Hot Wheels also trending really well. It's also important to note on Hot Wheels, we were up against the 50th anniversary last year. So we are expecting to have somewhat of a little bit of a challenge out there, but really experiencing great connectivity with our consumers.

Our Legends Tour, which we built last year, is multiplying, multiple cities with Walmart this year. It's one of the key drivers of POS. We've introduced also Monster Truck show -- live shows that are also driving POS. And as we also mentioned on our partnership brands, particularly with Jurassic, it's had a great start to its second year, bucking the trends of what would be movie year 2. So we're quite confident in that line as well. So overall, as we exit the first quarter, which while it's small is a good indication of how the year's going, we're feeling quite good about where we are.

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Yes, so in regards to the...

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

And then on the -- just to revisit that bridge from '18, the EBITDA, to the $350 million to $400 million again?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Yes, sure, Tim. I mean look, we had a good quarter and I think the things you have to think about in regards to Structural Simplification and comparing '18 to '19 is that if you remember in the back half of '18 is when we really started to materialize savings from Structural Simplification versus the first half. And so we have a sort of easier comparison in the first half of the year and a more comparable comparison in the back half of the year. So that's one of the things.

In regards to investments, if you saw the investments we reported in the quarter, investments will be more back-end loaded, so in the back half of the year. And the other comparables we had is remember, TRU that we were talking about. And then also remember the PA distribution warehouse that happened last year. That was first half expenses and a benefit in the back half. So I think it's more of a comparability of timing than actual anything else.

Operator

Our next question comes from Jim Chartier with Monness, Crespi.

James Andrew Chartier ***Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst***

I wanted to talk about the strategic investments you're making at advertising this year. It looks like the advertising will be 50% of the total $90 million of investments in OpEx this year. It seems like a big number. So curious what kind of sales lift you're expecting from those investments and if you could talk about maybe some of the bigger initiatives either by brand or however you want to talk about it. And then what kind of gives you the confidence to make such an investment in advertising this year?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Sure. Well, one of the things that we have been doing is really evaluating the effectiveness of our advertising so that we could -- over the last few quarters so that we could target our money more effectively. So when you think about that spend in regards to advertising, you're talking about online content, which includes like animated series, influencer programs, product-related videos, all of those things that the new consumers are really watching and trying to make their decision on what to buy.

And so when we think about that, this effort is going around across the company. It's helping Europe with its turnaround. It's helping North America with its. And obviously, in Asia, a good portion of what gets sold there is online. So we think we're just moving to where the consumer is going and trying to be as effective as we can with our spend.

James Andrew Chartier ***Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst***

And then are you assuming any material sales lift from that advertising investment? Or is this more of a across the [board incentives] later on?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Yes, when you talk about sales lift, what we're trying to do is get to flat for this year and stop the negative losses we've had over the past 5 years. So I think that's really what's happening. It's allowing us to finally get to flat and then look to turn up going forward.

Operator

Our next question comes from William Reuter with Bank of America.

William Michael Reuter ***BofA Merrill Lynch, Research Division - MD***

With regard to the investments you're going to be making this year, are those permanent? Or should we expect that those are one-time-ish in nature and then you'll be kind of like, I guess, thinking about it again freshly with 2020?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Right. Our investment program that we talked about for '18 and '19 has really been individual items that we've made investment at that point in time and that's it. So yes, we would have -- we would not give any guidance on 2020, but yes, it's not an ongoing investment. It's a one-time investment.

William Michael Reuter ***BofA Merrill Lynch, Research Division - MD***

Okay. And then just as a follow-up with regard to some of these facilities that you're leaving as a result of the Capital Light. Are you going to be receiving some proceeds? And is there any way to give us any sort of, I guess, expectations for how large those proceeds could be?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

So we're not providing any guidance on that currently just because of the sensitivity and confidentiality of the information. Dealing in foreign jurisdictions and the local governments and the workforce, we want to make sure that we're not triggering anything ahead of time that could cause us an adverse condition.

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

We -- and just to say, while there might be some benefits in terms of proceeds, this is mostly about efficiency and improving our cost structure and gross margin. That's where the focus is. Okay. Thanks, Bill.

Operator

Our next question comes from Greg Badishkanian with Citigroup.

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

At the TTPM Toy Fair today, you had a pretty sizable new toy line up for Toy Story. So how big of an opportunity could that be for 2019? And then if we think about entertainment overall for 2019, should we expect at least some modest growth year-over-year given some of the properties you're tied to?

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

Greg, it's Richard. We're very obviously excited about the Toy Story product lineup. As our retailers and as the line gets out there, we are anticipating consumers will as well. Early reads, although it's just hitting the floor, are pretty good. We don't normally size these partner relationships. But I can tell you that we're extremely bullish on Toy Story 4 both from a product and story perspective. We're also well teamed up with Disney around the world in our execution plans. Retailers are supporting the property with significant space and retail marketing. And we really believe that, coupled with what will be another very good Jurassic year, will be a powerful entertainment year particularly in action figures for Mattel and ultimately the industry as these properties drive excitement into the aisle and drive connectivity to the toy spaces all over the world. So we're very excited about Toy Story. But in general, the action figure business for us is a category that we're excited about 2019.

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

Great. Also, just the line of the BTS dolls as well at the Toy Fair. Is that something that could -- that you think could still be pretty sizable and incremental this year?

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

Yes. Look, as you saw and as we all see, BTS is a phenomenon. It's a great anticipated bet that Mattel has made. We quickly reacted to a trend and executed against product that is taking shape. We've introduced this product through a really innovative social media strategy. As we've been revealing the dolls and characters, we're garnering incredible traffic associated with what they call the BTS ARMY, who are the fans that ultimately are the ones that we're attracting to, at least on the forefront, buy the dolls. Retailers are getting more and more excited about it. We've got some great commitment from a space perspective, and we hope and anticipate that it will be a really fun and lucrative new line for us.

Operator

Our next question comes from Felicia Hendrix with Barclays.

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

So Richard -- well, to the whole team, you guys did better than everyone anticipated in the quarter. But Richard, I was hoping you could lay out for us what the biggest surprises were in the quarter for you?

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

Felicia, I would be honest and tell you that there were no real surprises. I think we had some big expectations on some brands and some small expectations on others and overall on balance, we met exactly what we thought we were going to do. It is a small quarter, as you know. A lot of it obviously takes place in the back half, but it's a good indication of where we're headed. Retailers are just setting up a lot of their lines. The floors get set. We get early reads on some of our product lines. And so far so good. I will tell you, of course, we're most pleased with the performance of the Barbie brand. As you know, it's been a real work in progress in the last several years and the consistency that we've seen, consumer takeaway, retailer support and frankly the press reaction to the programs has been terrific.

So overall, I would tell you that we've got a great portfolio coming together. I think our partnership brands with Toy Story 4, that's going to be a great one for us, Jurassic year 2. In our games business, I'm really pleased with UNO. I think you're going to see in the back half a lot more strength in the Games category coming from Mattel with some terrific new items. So in general, I would say I'm pleased, and I would say we're poised for a good year with execution in mind.

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

That's helpful. And just flipping this around, and I know you guys are trying to kind of transition from prior patterns in terms of giving guidance, but it just seems like with all the momentum so strong, and Joe, you said in the beginning of the call you're just -- there's a lot of year left in the year. So you don't want to get ahead of yourselves with the guidance. But when you think about the rest of the year, what are you cautious on then?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

Well, I mean when you think about the first quarter for ourselves internally, I know the numbers look good to you externally. To us, we're performing to our plan. So when I look at BTS and some of these other things that look like they're going to be great in the marketplace, we've already built those into what we have going forward. Now is there upside? Potentially. But there's still so much of the year left. We don't want to get ahead of ourselves before we really sort of have an idea of where things are going to go.

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

Okay. Understood. And Joe, while I have you, just a balance sheet question, just with the high-yield market. It's at near recent heights and your 2025s are back over par. Would you consider paying off the 2020s with available liquidity or terming them out as bonds?

Joseph J. Euteneuer ***Mattel, Inc. - CFO***

We are looking at that. We haven't made any decisions yet, so we will come back to you on that.

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

Okay. And I just want to say...

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

And Felicia -- sorry, go ahead.

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

I want to say welcome to Dave Z, welcome back. I wanted to say that.

David Zbojniewicz ***Mattel, Inc. - Securities Analyst***

Thanks, Felicia.

Ynon Kreiz ***Mattel, Inc. - Executive Chairman & CEO***

Thanks, Felicia. I just want to tag on to Joe's comment on the rest of the year. Our job is to do the best we can, and we clearly are very focused on execution and are very proud of the fact that we are able to do that consistently now and improve numbers, especially profitability for 3 quarters in a row. It's -- this quarter was -- performed better than expectations, but it is a small quarter. And as you said, with a lot of the year to go, it's just too early to make any changes.

Notwithstanding that, we are doing what we have to do and just keep at it and keep performing. But there's a long -- there's a lot -- if we do perform parallel to guidance, I just want to remind everyone, it will mean that we will achieve flat revenues after 5 years of consecutive decline. And if we hit the top end of our range, i.e., $400 million adjusted EBITDA, it will mean that we double EBITDA year-on-year -- adjusted EBITDA year-on-year. And if these things happen, it will be the highest improvement in operating income in 10 years.

So this is not an easy task, and we appreciate the confidence and the recognition of the momentum. But we want to do things in the right cadence, in the right order and recognize that this is a multiyear turnaround and things will take time.

Operator

I'm showing no further questions at this time. I'll turn the call back over to management for any closing remarks.

David Zbojniewicz ***Mattel, Inc. - Securities Analyst***

Thank you, operator, and thank you everyone for joining the call today. The replay of this call will be available via webcasted audio beginning at 8:30 p.m. Eastern Time today. The webcast link can be found on our Investors page, or for an audio replay, please dial (404) 537-3406. The passcode is [8098234].(corrected by company after the call) Thank you for participating in today's call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may all disconnect, and have a wonderful day.