THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MAT.OQ - Q2 2020 Mattel Inc Earnings Call

EVENT DATE/TIME: JULY 23, 2020 / 9:00PM GMT

OVERVIEW:

Co. reported 2Q20 gross sales of $815m, net sales of $732m and reported operating loss of $46m.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Anthony P. DiSilvestro *Mattel, Inc. - Executive Advisor*

David Zbojniewicz *Mattel, Inc. - Vice President of IR*

Joseph Euteneuer *Mattel, Inc - Chief Financial Officer*

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

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

CONFERENCE CALL PARTICIPANTS

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

David James Beckel *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

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

Frederick Charles Wightman *Wolfe Research, LLC - Research Analyst*

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

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

Stephanie Marie Schiller Wissink *Jefferies LLC, Research Division - Equity Analyst and MD*

Tami Zakaria *JPMorgan Chase & Co, Research Division - Analyst*

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Mattel, Inc. Second Quarter 2020 Earnings Conference Call.

(Operator Instructions) As a reminder, today's conference call is being recorded and will be approximately one hour in order to accommodate Q&A.

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

David Zbojniewicz - *Mattel, Inc. - Vice President of IR*

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; Joe Euteneuer, Mattel's Chief Financial Officer; and Anthony DiSilvestro, Executive Adviser and Mattel's next Chief Financial Officer.

As you know, this afternoon, we reported Mattel's 2020 Second quarter financial results. We will begin today's call with Ynon and Joe providing commentary on our results. After which, we will provide time for Ynon, Richard, Joe and Anthony to take your questions.

To help supplement 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 and Loss; Adjusted Earnings and Loss per Share; Earnings Before Interest, Taxes, 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 addition, please note that Gross Sales related to our new plush products are included in our Action Figures, Building Sets, Games and Other categories breakout, which are also referred to as Challenger categories on this call.

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 related to the future performance of our business, brands, categories and product lines. These statements are based on currently available information and assumptions, 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, including risks and uncertainties associated with the COVID-19 pandemic.

We describe some of these uncertainties in the Risk Factors section of our 2019 annual report on Form 10-K, our Q1 2020 quarterly report 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 for joining Mattel's Second Quarter 2020 Earnings Call. On behalf of Mattel, I hope that you are staying healthy and safe.

We entered the quarter with extensive retail closures and distribution challenges and had to absorb a full quarter of COVID-19 impact, but we demonstrated our execution capabilities and the resilience of our brands.

Although our total revenues were down, they exceeded our expectations, particularly, in North America, Barbie and Games, where we saw sales increases.

Total company POS improved significantly and was positive in the quarter, and e-commerce continued to grow strongly in all regions.

Our ongoing efforts to restore profitability proved very effective with continued operational improvement, additional cost savings and a meaningful increase in gross margin.

During this challenging time, our top priority has been to protect the health and safety of our employees and, at the same time, mitigate the disruption to our business. We have also demonstrated our commitment to being a responsible corporate citizen and to drive positive social impact.

We continue to leverage our expertise, products and resources to support our consumers, our communities and the many frontline heroes around the world.

We also took a stand against systemic racism with the launch of our Play Fair program, developed to drive change and create new ways to support the Black community. Our commitment includes developing and recruiting Black talent and creating products and experiences centered around diversity.

We are continuing to cultivate a work environment that promotes equality, inclusion and empowerment. We recently announced our diversity and inclusion goals to increase female and minority representation at all levels of the organization. We proudly shared that we have achieved 100% pay equity in the U.S. for all employees performing similar work.

We know that much of our success is grounded in being a richly diverse company, and we are highly committed to continuing our progress.

Turning to the key highlights of our second quarter performance. Gross Sales were $850 million, down 15% as reported versus prior year and down 13% in constant currency. Net Sales was $732 million, down 15% as reported and down 13% in constant currency. Reported Gross Margin was 43.8%, an improvement of 410 basis points. Adjusted Gross Margin was 44.0%, also an improvement of 410 basis points. And Adjusted EBITDA was $31 million, a decline of $11 million. We are encouraged by the continued increase of our Gross Margin, which we achieved in spite of the revenue decline.

Looking at our Gross Sales in constant currency. Most of our categories had double-digit revenue declines primarily due to the impact of retail closures and local restrictions in the international regions.

Almost half of the total company revenue decline was due to Action Figures with the expected impact from Toy Story 4, post its movie launch year, which we were not able to offset given the industry-wide delay in theatrical film releases.

With that said, Barbie performed exceptionally well, with revenues up 10% for the quarter.

Our Games category also continued to perform particularly well, driven by a very strong performance of UNO, and we benefited from the successful launch of Star Wars: The Child Plush product line.

One of the key positive highlights for the quarter was the strength of our POS. Total company POS was up high-single digits, a significant improvement compared to the first quarter, where POS was down mid-single digits. The strong POS trends throughout the quarter were driven by our Dolls and Infant, Toddler, and Preschool categories, where we are a global leader, and our Games category, where we are a challenger.

Our Doll category POS was up double digits, with very strong demand for Barbie, which was up more than 35%. Per NPD, Barbie gained market share in the Dolls category in the U.S. in the quarter and was the #1 toy property in the U.S. for 5 consecutive weeks.

Our Infant, Toddler, and Preschool category POS was up double digits, driven by strong demand for Fisher-Price Core products and the ongoing progress of our Fisher-Price turnaround strategy.

POS in our Vehicles category was down overall due to the ongoing retail closures in key international regions, which affected impulse purchases.

The Challenger categories were flat, but we saw very strong POS momentum in Games, which was up double digits, driven by UNO, as well as in our new Plush offerings with the successful launch of Star Wars: The Child. UNO continued to be the #1 game in the U.S. according to NPD.

As we had anticipated, the industry is shifting back to its pre-COVID-19 category consumption patterns, and our products are resonating with consumers. Our total revenues clearly trail POS as retailers tightly manage their working capital and inventories, given the uncertainty related to COVID-19.

Another key positive highlight for the quarter was our growth in e-commerce. E-commerce POS was up sharply in every region, including doubling in North America, where it represented approximately one-third of our total volume in the region. We continue to work closely with all of our retailers to support them as they adapt and optimize this growing channel. Our flagship franchises, innovative toys and strong demand creation position us well to continue to lead online, and we expect the momentum we currently have to further accelerate the execution of our e-commerce strategy.

Regional performance for the quarter continued to be directly impacted by retail closures and local restrictions. By the end of the second quarter, about 4% of all retail outlets that sell our products, representing about 8% of our revenue base, were closed. This is compared to about 30% of the retail outlets that were closed exiting the first quarter. Notwithstanding the impact on the second quarter, the gradual reopening of stores is a positive development for the second half of the year.

Looking at regional performance and Gross Sales in constant currency for the quarter.

In North America, Gross Sales rebounded and were up 3%, driven by our strong execution during this challenging time. About 2% of our retail outlets were closed at the end of the period. POS was up double digits for the quarter.

In EMEA, Gross Sales declined 19% due to the high degree of specialty and department store closures we experienced early in the quarter. By the end of the quarter, only about 1% of our retail outlets remained closed. In spite of the revenue decline, POS was up low single digits, and we grew share in the E6 in the quarter and year-to-date, per NPD.

In Asia Pacific, Gross Sales declined 29% due to extensive lockdowns in Southeast Asia and India, with solid performance in Australia. Approximately 7% of our retail outlets were closed exiting the quarter, and POS was down double digits.

In Latin America, Gross Sales declined 43% due to the closure of specialty and department stores. About 28% of our retail outlets were closed exiting the quarter, and POS was down double digits.

As we said during the first quarter earnings call, our work over the past two years to develop a flexible and results-oriented organization is serving us well as we were able to significantly improve Gross Margins in spite of the revenue decline.

Our supply chain also continued to perform well despite temporary closures of certain manufacturing and distribution facilities early in the quarter.

We realized $18 million of savings with our Capital-Light program in the quarter and continue to expect to be well above our full year target to reduce SKUs by 30%. As mentioned before, with the cumulative savings of $875 million from Structural Simplification that we have already achieved, we remain on track to exceed $1 billion of savings exiting 2020.

Looking to the second half of the year, we are confident about our path forward and remain focused on the execution of our strategy to transform Mattel into an IP-driven, high-performing toy company.

Currently, all of our factories are open with minimal disruption to operations, as we enter the peak production season.

Based on the momentum we are seeing, the positive POS trends and low retail inventories exiting the quarter, we are planning for strong demand for our products, in expectation of an improved revenue performance in the second half compared to the first half, including the all-important holiday season.

With that said, in spite of the positive outlook, we caution you to recognize the COVID-19 uncertainty that still remains globally and the extent of retail closures, particularly in key international markets, which are likely to negatively impact revenue performance in the second half on a year-over-year basis.

Looking beyond 2020, having achieved tangible progress across every part of the enterprise entering this year, we expect to manage through the disruption and continue to execute on our short-to-mid term strategy to restore profitability and regain top line growth.

Taking a broader view, we see several macro industry factors that we believe will benefit us going forward. The POS trends in the second quarter are a testament to the resilience of the toy industry in challenging economic times as parents prioritize spend on their children and look for high-quality products at affordable price points.

Retailers are aggressively looking to attract consumers to their online or brick-and-mortar stores, and toys have always been considered a strategic category.

Our retail partners have done a remarkable job adapting to the current operating environment, and we expect them to continue to drive and meet the consumer demand for toys.

According to Euromonitor, the traditional toys and games industry is forecasted to grow at a CAGR of 4.9% on a global basis through 2024, based on fixed exchange rates at nominal value. This is expected to be driven by the Dolls category, which is expected to grow at a 10% CAGR, which bodes well for Mattel.

We also continue to advance our mid- to long-term strategy to capture the full value of our IP.

While film production schedules have been impacted due to COVID-19, we have been actively advancing the creative work on several of our film and television projects.

Interest in our IP catalogue remains strong, and we recently announced a new film project with Universal Pictures based on Wishbone, the hit television series from the nineties, that will be produced alongside Academy Award winner, Peter Farrelly.

Mattel films now has nine movie projects in development.

We have released new episodic content related to Barbie, Thomas and Polly Pocket in the quarter. Production work on our two Masters of the Universe animated series is ongoing, and we look forward to launching these on Netflix next year.

Our digital gaming initiatives continue to accelerate. In the second quarter, Mattel's mobile free-to-play card and board games have provided much needed social gameplay for consumers around the world to connect with friends and family.

UNO, which was a top five downloaded card game in the U.S. App Store in the quarter, continues to scale with over ten billion games played to date.

And Phase ten: World Tour, a top ten downloaded card game in the U.S. App Store, has seen over 20% growth in daily players during the quarter.

This week, we announced that Diana Ferguson, Chief Financial Officer of Cleveland Avenue, has been appointed to our Board of Directors and will become the chair of the Audit Committee.

Diana is a highly experienced executive who brings a proven track record of corporate financial management and strategic planning to our Board. We look forward to benefiting from her insights and perspectives as we continue to execute our strategy.

Before I close, I would like to welcome Anthony DiSilvestro to the Mattel team. Anthony has joined the company as Executive Adviser and will assume the role of Chief Financial Officer on the date following the filing of our second quarter 10-Q.

Anthony is a world-class executive with a proven track record of driving transformation and operational performance, and he joins Mattel with nearly four decades of financial and leadership experience, most recently serving as the Chief Financial Officer of Campbell Soup Company.

He will help carry forward the momentum of the turnaround, as well as maintain a disciplined approach to cost management.

I look forward to working with Anthony to continue to transform Mattel into an IP-driven, high-performing toy company and create long-term shareholder value.

I also want to sincerely thank Joe for his important contributions to Mattel over the past three years as a valuable member of our leadership team and for his commitment to facilitating a smooth transition of the CFO role. Joe has played a key role in the significant progress we made in reshaping our operations, restoring profitability and positioning the company for growth. I am grateful for his partnership and friendship.

With that, Anthony will say a few words before Joe covers the financials in more detail.

Anthony P. DiSilvestro - *Mattel, Inc. - Executive Advisor*

Thanks, Ynon. I have admired Mattel for a long time and have been a consumer of its many toys. Mattel is a great company with a strong portfolio of brands, which have stood the test of time and continue to be relevant with today's consumers.

The strategy to transform Mattel into an IP-driven, high-performing toy company is compelling. The toy industry is showing resiliency in these challenging times, and Mattel is demonstrating that it is well positioned to continue its path to long-term profitable growth.

I am excited to work closely with Ynon, the leadership team and the finance organization to execute our strategy, and I look forward to engaging with our shareholders and the investment community at large going forward.

Before I turn the call over to Joe, I want to thank him for his support during the transition. Joe?

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

Thank you, Anthony, and good afternoon, everyone. Before I begin, let me just say it's been a pleasure working with Ynon and the entire Mattel team over the past few years. I'm extremely proud of our accomplishments and the progress made to date. We have built a significantly more flexible and efficient business that will continue to serve the company well in the years to come. I wish everyone at Mattel and those of you listening to our call today nothing but success.

I will now provide more details on the company's second quarter results, starting with Gross Sales by category in constant currency.

For the quarter, Dolls' revenue declined 2%, primarily due to Owned Brands and American Girl, partially offset by significant strength in Barbie. Barbie revenues grew 10% in the quarter. We saw revenue growth across almost all segments of the brand and continue to see strong momentum for Color Reveal, a recent innovation.

American Girl revenue was heavily impacted by continuing retail closures, partially offset by strong direct-to-consumer performance, which more than doubled year-over-year, resulting in a 16% decline.

We continue to build out our digital flagship capabilities and launch new product offerings and are encouraged by the high double-digit online sales increase in the quarter.

Vehicles category revenue declined 23% in the quarter, primarily due to Hot Wheels and the expected decline of Disney's CARS vehicles in a non-movie year.

Hot Wheels sales were down 19%, primarily due to international retail disruptions, including a high number of store closures.

Despite double-digit positive POS in North America, overall Hot Wheels POS was down mid-single digits for the quarter.

As we enter Q3, however, we are seeing improving trends and remain confident about the long-term prospects of this brand.

Infant, Toddler, and Preschool category revenue was down 19% for the quarter but achieved positive double-digit POS growth.

Revenue declines were due to our Imaginext Toy Story 4 line, Thomas & Friends, as well as our Fisher-Price Friends business, where we continue to exit underperforming licenses.

These declines were partially offset by growth in Baby Gear and Power Wheels.

We are encouraged by the very positive POS trends for the category, especially in North America. Shipping, however, continued to trail POS as stores remain closed in international markets and retailers continued to more tightly manage their inventory levels.

Revenue for Action Figures, Building Sets, Games, and Other, our Challenger categories, together declined 11%. However, POS for the combined category was flat.

Our Games category continued to perform exceptionally well and had its best second quarter ever and best first half ever. POS was up significantly again this quarter, marking the fifth consecutive quarter of positive POS growth.

UNO saw its ninth consecutive quarter of year-over-year growth and, as Ynon said, we also saw strong demand and revenue for our Star Wars: The Child Plush products.

Our Action Figures category declined as we continue to lap Toy Story 4 post its movie launch year.

Our Building Sets category declined as MEGA was impacted by reduced retail distribution. We do expect to see better distribution in the U.S. in the fall and look to leverage the launch of Halo this holiday season.

Turning to the rest of the P&L.

Despite COVID-19 disruptions and reduced revenues, we continue to see significant improvement in Gross Margin with our highest second quarter Gross Margin since 2016.

Second quarter Reported Gross Margin was 43.8% of net sales, a 410 basis point increase over the prior year. Adjusted Gross Margin was 44.0% of net sales, also a 410 basis point improvement versus the prior year. The increase in Reported and Adjusted Gross Margin was primarily driven by the incremental realized savings from our Structural Simplification and Capital-Light cost savings programs and a decrease in royalty expense, partially offset by the unfavorable impact of lower volumes.

We continue to make progress towards our goal of restoring profitability, and we remain on track to return our Gross Margin to the high 40s in the mid-to-long term.

Moving to Advertising. Expenses for the quarter totaled $60 million or 8.2% of net sales. This compares to $85 million or 9.8% of net sales in the prior year. As anticipated, the year-over-year decrease in Advertising was primarily driven by lower spend in the quarter and the shift of spend to the second half of the year.

We also proactively managed SG&A spend during a very challenging quarter. Reported SG&A for the quarter was $307 million, a decrease of $2 million versus the prior year. Adjusted SG&A for the quarter was $288 million, a decrease of $2 million versus the prior year. The decrease was primarily driven by the incremental benefit of Structural Simplification savings, partially offset by higher incentive compensation expense.

As we said on our first quarter call, we expect full year incentive compensation to be down versus the prior year. The higher expense in the quarter is related to the timing of our incentive compensation accruals.

For the quarter, Reported Operating Loss was $46 million, a slight improvement compared to a loss of $51 million in the prior year. Adjusted Operating Loss for the quarter was $26 million, compared to a loss of $30 million in the prior year. The improvement in Reported and Adjusted Operating Loss was driven by the incremental realized savings from cost savings programs, including lower depreciation, partially offset by lower Gross Sales.

Adjusted EBITDA was $31 million compared to $42 million in the prior year. The decrease was primarily due to lower sales, partially offset by realized savings from cost savings programs.

Moving to taxes. In the second quarter, our income tax expense was $13 million. We continue to expect that, going forward, our overall effective tax rate may vary significantly from quarter-to-quarter due to the level and mix of income or losses in our foreign jurisdictions and the full valuation allowance on our U.S. deferred tax assets.

Turning to the balance sheet. We ended the quarter with a cash balance of $462 million, including $400 million of short-term borrowings drawn down from our senior secured revolving credit facilities.

Our working capital decreased year-over-year as a result of a reduction in Accounts Receivable and Inventory.

More specifically, Net Accounts Receivable decreased 14% year-over-year, although our days sales outstanding slightly increased to 80 days, up 1 day versus the prior year.

Owned Inventory decreased $20 million versus the prior year due to the impact of temporary plant closures that occurred early in the quarter relating to COVID-19.

Capital Expenditures totaled $25 million for the quarter, relatively flat compared to $24 million last year.

To reiterate what Ynon said, in spite of the positive outlook, we caution you to recognize the COVID-19 uncertainty that still remains globally and the extent of retail closures, particularly in key international markets, which are likely to negatively impact revenue performance in the second half of the year on a year-over-year basis.

As a result, we will be balanced in our production levels, working with our retail partners on key drivers and aligning on fall advertising and promotional programs. In addition, we will prioritize production of evergreen products to ensure ongoing health of inventory into the new year.

Looking beyond revenues, we have demonstrated our capability to manage our costs and remain confident in our ability to do so going forward.

Gross Margins have continued to improve despite the revenue declines, and we expect material and labor cost inflation to be more modest than originally anticipated.

While there is still uncertainty in the balance of the year, given our strong Gross Margin performance year-to-date, we currently see Adjusted Gross Margins for the full year coming in around 150 to 250 basis points higher than full year 2019.

We expect our Advertising expenses on a full year basis to end up within our historical range of 11% to 13%, as a percentage of Net Sales.

We remain focused on cost management and are on track to achieve $90 million of Adjusted SG&A savings in 2020 compared to 2019.

Separately from these efforts, we continue to expect to realize $92 million of Adjusted EBITDA savings this year related to our recently concluded Structural Simplification program as well as the previously announced $50 million of savings from our ongoing Capital-Light program.

In regards to our liquidity, at this time, we believe we have sufficient liquidity to effectively manage through this disruption and continue to execute our strategy. As a matter of practice, we routinely evaluate our capital structure and access to the capital markets to opportunistically improve our financial flexibility. We have no debt maturities until 2023, and we continue to have access to our $1.6 billion Senior Secured Revolving Credit Facilities.

In closing, the work we've done to reshape our operations over the past two years has improved our cost structure, financial flexibility and liquidity. We believe we remain well positioned to navigate the COVID-19 disruption and continue executing our strategy.

On a personal note, I would like to thank Ynon, the leadership team, the finance organization and the greater Mattel team for their partnership and all that we've accomplished.

I am proud of the significant progress we have made to reshape our organization, restore profitability and position the company for more sustainable growth. I firmly believe these efforts will continue to benefit the company in the years to come, and I am confident in the continued success of Mattel under Ynon and Anthony's leadership.

With that, I'll turn the call back over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Michael Ng of Goldman Sachs.

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

I just had two. The first one is on the retail closures exiting the quarter. You guys said 4% of retail outlets are closed exiting 2Q versus 30% exiting 1Q. Could you just frame for us the potential revenue benefit just from that alone, assuming all else equal, as we head into the second quarter?

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

Michael, what we said is that the impact in the first quarter was about one-third -- it was one-third of our revenue, the 30% closure affected about one-third of our revenue. And by the end of the second quarter, the 4% of retail outlets that were closed represented 8% of our revenue.

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

Okay. And I was wondering if you could talk a little bit about the really strong growth that Barbie had in North America. [35%] (corrected by company after the call) year-over-year, it was really impressive. What made Barbie a standout relative to the rest of your portfolio? And is the Barbie retail inventory at low levels? Or is that more of a general comment for the entire portfolio?

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

Michael, it's Richard. Look, we're incredibly proud of the Barbie business, and it really continues to resonate with consumers. It's a combination of incredible product, new innovation and cultural relevance as well as real active demand creation and finally new content that's really resonating with our core consumer.

The trends for Barbie, entering the second half going into fall are incredibly strong. I mean global POS was up more than 35% for the quarter. We had share gains per NPD. The brand's strength is continuing as the #1 fashion doll property globally. It's also, by the way, the #1 toy property in the entire U.S. industry for five consecutive weeks per NPD. The strength that we have in -- for instance, a segment like Fashionistas today, which is the most inclusive and diverse fashion doll assortment, is incredibly culturally relevant and provides parents with an incredible play system that really talks about the day-to-day world that we live in. And in addition, the new innovation segment that we launched called Color Reveal has been unbelievable. We've got more waves, higher price point gift sets and new scales coming. Our estate segment, it's been up significantly, which is driven by large ticket items like the Dreamplane, DreamCamper and the iconic Dreamhouse, which is already a top ten item year-to-date in the U.S.

The activity that we've got planned for the back half is strong, incredible new product, lots of great surprises to come from Barbie. So we're very confident in the back half of the year. And to answer the inventory question, its lean, good inventory, great sets where retailers are open and incredible traction online.

Operator

Our next question comes from the line of Tami Zakaria of JPMorgan.

Tami Zakaria - *JPMorgan Chase & Co, Research Division - Analyst*

Congrats on a good quarter in a very difficult environment. So I also have two quick ones. First one is you're guiding to 150 to 250 basis points of Gross Margin improvement for the year. So my question is, what level of sales do you need to be able to achieve that?

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

Yes. We haven't really given the guidance on that, but we're confident because of the Structural Simplification takeout that we've done that will impact the back half of the year, along with what's going on with raw materials, that gives us the confidence that we can deliver that margin over a variety of revenue outcomes.

Tami Zakaria - *JPMorgan Chase & Co, Research Division - Analyst*

Got it. Got it. That's helpful. And then my second question is, what's your contingency if retailers have to shut their stores again in the back half if there's a second wave? Like is the impact going to be as big as you saw in the second quarter?

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

Well, we did look at different scenarios and obviously continuously analyzed the way the market evolves from here. But as we said on the call, based on the momentum we are seeing right now, the positive POS trends and low retail inventories exiting the quarter, we are planning for strong demand for our products, in expectation of an improved revenue performance in the second half compared to the first half, including the holiday season. There is uncertainty. There is uncertainty that remains in many parts of the world, especially as it relates to retail closures, particularly in some key international markets, so that is likely to negatively impact the second half relative to prior years. But given the strength of e-commerce, that remains a growth engine for us, and the other initiatives that we are putting in place, we feel confident heading into the second half.

Operator

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

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

All right. Just sticking with this guidance topic on revenue. So second half should be better than the first, which was down 14%, so I hope that happens. But are you eliminating the possibility of actually being up in the back half? Is that a possibility, that you could be actually up?

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

Well, we're not providing any guidance. But our job is to continue to execute well. I think we demonstrated in the second quarter our strength as an operation, the resilience of our brands. We were able to increase our Gross Margin very meaningfully in spite of the decline, and that work continues across the board, both on the top line and the bottom line. There is uncertainty, and we need to navigate the company in that environment. But given our performance, we feel confident, as I said, heading into the second half.

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

Okay. And American Girl, with direct-to-consumer up significantly, why do we still have stores? And what's the plan with the physical locations for American Girl?

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

Gerrick, we're really pleased with the performance of American Girl in the second quarter and specifically given the circumstances related to COVID and the impact that it's had certainly on our retail fleet. Obviously, temporary closures and lack of progress that we wanted to make on our flagship stores has encouraged the pivot to e-commerce, which has been incredibly robust. The focus and investment that we've been putting behind our e-commerce and digital strategy is really starting to pay off, with e-commerce up double digits in the second quarter, more than doubling prior year.

On the retail front, the retail environment obviously remains uncertain, but the evolution of our momentum is going to be channeled into our e-commerce platform. And while we continue to evaluate our retail footprint, last week, we announced plans to close three doors, where leases were actually set to expire in early 2021. That was Kansas City, Atlanta and Denver. Look, these decisions are never easy. Closures are a necessary part to optimize our store portfolio. We'll continue to evaluate the leases as they come up. But as I said, we're really encouraged with the e-commerce business and continue to feel a lot of confidence in the back half on American Girl.

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

To emphasize the point on e-commerce. As we said, this has been really one of our star performers, a key part of our strategy. We saw it growing strongly in all regions. POS more than -- or POS doubling in North America, now representing one-third of our volume. And seeing the momentum continue, it will be something we will talk about more in the future, becoming an important part of our growth strategy.

Operator

Our next question comes from Steph Wissink of Jefferies.

Stephanie Marie Schiller Wissink - *Jefferies LLC, Research Division - Equity Analyst and MD*

I'm going to take a second stab at Gerrick's question and just ask it differently. But as you think about the second half versus the first half, is your expectation that the North America business stays relatively consistent to what you saw in Q2? Or do you expect the big improvement to come from acceleration or betterment of some of the declines we've seen in some of the international markets?

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

Steph, we're not providing any guidance or more detailed breakdown of how we think about the future. But I would point to the strong POS that bodes well for the company. The fact that we're able to turn a decline in the first quarter to high single-digit growth across the entire portfolio is a strong message. So our product clearly resonates with consumers. We're able to find cultural relevance and continue to drive performance with very strong execution. And we believe we're heading into the second half with momentum across the board, both in terms of product and with local execution.

And as stores continue to open, that obviously would be a benefit. And with all of that said, back to the comment I made earlier, there's still uncertainty. So nothing is in the bag.

Stephanie Marie Schiller Wissink - *Jefferies LLC, Research Division - Equity Analyst and MD*

And could I ask one question, Richard, for you, just on digital marketing, and your comments on e-com are intriguing. How are you thinking about your marketing mix as we go into the back half of the year? I think, Joe, you mentioned maintaining advertising in that 11% to 13% range for the full year, which would imply some catch-up spend in the back half. How should we think about digital versus traditional legacy advertising format?

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

Yes. Steph, thanks for the question. But we've been working, as you know, over the last couple of years pretty significantly on balancing our demand creation strategies between linear and digital and really feel quite comfortable at this point in our set as well as making pretty tremendous progress against it. We obviously have a shift and an acceleration towards online, mobile shopping and a digitally savvy consumer. E-commerce and entertainment continue to blend with new shopping platforms emerging all the time. We've got a really nimble digital marketing organization that's reacting in real-time, with active demand creation models that are taking advantage of the talent that we have and the landscape that we're operating in. And we are going to continue with our demand creation strategies that are working incredibly well right now, and I anticipate continuation in the back half.

Operator

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

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

First, Anthony, welcome aboard. And Joe, it's really been a pleasure working with you. So I know you said you aren't going to provide guidance on revenue, and sorry to go back to this, but you are getting into peak production in just a couple of weeks here. What kind of volume assumptions are baked into those production schedules for the back half? And also, could you talk a little bit about demand picture internationally? What was the international POS for the quarter? I guess I'm just trying to understand inventory situation there and how that's set up for Q3, given that you didn't ship much there.

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

So we're not going to help you much on giving you guidance for the second half. But we did enter the peak production season, we are balancing our production levels, we're working closely with our retail partners on key drivers and are aligning on the full advertising and promotional program, which is something we always do. We will also prioritize production of evergreen products to ensure inventory remains healthy in the new year, and entering the second half with low retail inventory is a good thing. So that -- sorry, again, I can't help you much on guidance, but with everything I said, hopefully, it will give you some reference to where -- how we think about the second half of the year. And I'll let Joe answer the question on inventory.

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

Well, retail inventories are sort of down in absolute dollars and down in weeks on hand. So that obviously positions us well for the second half of the year. And I'll just reiterate what Ynon said, I mean, the one thing our commercial force does is really partner with our retailers and coming up with the plans for the back half of the year, so that as we have to emit a demand signal to manufacturing, it's done with a lot of thought before we do that. And we still have some time before it actually gets locked in. So we still have some time to see what's going to happen with the virus.

In regards to your question, in regards to POS, obviously, the entire worldwide POS for all brands were up high single digits. North America was up double digits. International was down high single digits, but remember, that's the aggregate across the globe and some -- like EMEA was doing well as we were exiting the quarter versus where we started the quarter. And you sort of saw that as you sort of went across the globe, so you need to take that into consideration.

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

All right. Makes sense. And one more quick follow-up, if I may. It seems like POS was up strong double-digit for Fisher-Price. So wondering what drove double-digit decline in sales there and why there's such a wide gap between demand and what you were able to ship. I guess I'm trying to understand why you couldn't ship to demand. Was it all licensed franchises that you're trying to eliminate?

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

Arpine, Fisher-Price revenues were down, but it was, in large part, due to our Imaginext Toy Story 4 line. We did have positive double-digit POS for the quarter, which, by the way, we have not seen in many years. We're incredibly encouraged by recent POS, which shows significant improvement compared to the first quarter. And look, there's disruption obviously related to COVID-19, but we really do believe in the brand for the long term, remain confident in our plan and progress that we're seeing.

As we roll out frankly our new product, Rollin' Rovee, a new innovation that you're aware of, and saw strong year two in Linkimals, we're pretty confident that we will maintain our #1 leadership position in the Infant, Toddler, and Preschool category and continue to be an incredibly valued partner by parents, which is more important than ever today.

Operator

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

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

Gentlemen, congrats on, again, executing in a difficult quarter. And Joe, thank you. And Anthony, welcome aboard, sir. A couple of things, and this has been hit in multiple ways, so we'll try -- we'll continue on here, though. So if we rewind 90 days ago or so, not quite, you said, look, Q1 was down 13%-or-so, and we expect Q2 to be down even more significantly, and here we are kind of very comparable. And now we've got strong POS, we've got trends improving throughout Q2, lean channel inventories. And I know there is a lot of uncertainty, and the back half of the year is heavier weighted than the first half. But can you help us in any way -- the question was asked, should back half of the year sales be flat? You're saying it's going to be better than what was down in the first half. But just any color, I think, would be much appreciated.

And then, I guess, one other way to an angle on that would be, if theoretically, all brick-and-mortar were shut down, how much bandwidth could be offset with incremental e-commerce? Or I guess what's the excess e-commerce bandwidth or is there any to handle that if we assume that in the back half of the year?

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

Yes. So without downplaying the success and the achievement of what we've done in the second [quarter] (corrected by company after the call) relative to expectation, there's still a lot of uncertainty in the second half of the year. There is still a question mark on the extent of retail closure, particularly in key international markets, and there's just broad uncertainty with retailers as well, managing their inventory more tightly than usual. The important thing, and as you know, this is foundational, is the strength of POS. We know that. We also know that we are able to make product because our supply chain is up and running. So these are two good pieces of the puzzle -- important pieces of the puzzle. And the third is just the uncertainty, which we can't control. So we are going into the second half confident. We know we can execute well. We know our brands resonate, and we know there is demand. And with that environment, we intend to do our best. But given the uncertainty, we can't give you specific guidance.

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

Okay. No difficult questions. Fair. Regarding the e-com, how much ability would you be able to offset if we saw similar maybe shutdowns to the first half or if all of it was shut down? Any color or framing that you could do there as to e-commerce's ability to make up any closures on the brick-and-mortar side?

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

It's really hard to speculate, but I can tell you that the market shifted and, in many ways, accelerated maybe a few years in terms of the way online retail and e-commerce is being consumed and managed. You see it both from the supply side, with retailers really stepping up, advancing their infrastructure and catering for online retail, as well as consumers who are much -- who have a much higher propensity now to buy, shop online, including all the way to imports purchase online. So the market has accelerated. We too have shifted our plans and are accelerating our efforts in online retail and e-commerce. And one way or the other, we expect to remain a leader and be very proactive in capturing as much value as we can from online sales as we have done now consistently for a few quarters and even more so in the -- in Q2 that just finished.

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

Okay. And lastly, a quick clarification, if I may. The $90 million year-over-year in SG&A, is that off of the total reported SG&A? Joe, I think you said Adjusted, so we should just look at that as the core SG&A, excluding severance and one times, correct?

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

Yes. The Adjusted SG&A will be better by $90 million.

Operator

Our next question comes from the line of Greg Badishkanian of Wolfe Research.

Frederick Charles Wightman - *Wolfe Research, LLC - Research Analyst*

It's actually Fred Wightman on for Greg. If we look at the Gross Margin guidance for the full year, so up 150 to 250 basis points, I mean, that implies a pretty wide range of performance in the back half. It looks like it could even be down a little bit year-over-year. Is the high end of that range versus the low end really just a matter of sales volume? Could there be some cost saves that are shifting? How should we think about the high end of that?

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

Yes. So remember, you have a couple of things going on. The actions we've already taken in the first half of the year that will benefit us in the second half of the year. You'll have the tougher comparison because if you think about Structural Simplification in 2019, it was well back-end loaded versus this year. And then we do have the uncertainty on the top line.

Frederick Charles Wightman - *Wolfe Research, LLC - Research Analyst*

Okay. And then just shifting to POS, North American POS, up double-digit this quarter. But I think when you guys reported back in late April, you talked about U.S. POS was also up double digits. So on an apples-to-apples basis, did that trend improve as you move throughout the quarter?

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

The trend for -- could you repeat that?

Frederick Charles Wightman - *Wolfe Research, LLC - Research Analyst*

Just U.S. POS, I think you guys talked about it being up double-digit when you -- in late April, when you reported.

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

Yes. So North America, across all brands, POS was up double digits in the quarter and obviously a positive trend from where we were in the first quarter.

Frederick Charles Wightman - *Wolfe Research, LLC - Research Analyst*

Right. But when you guys reported first quarter results, I think you talked about April POS in the U.S. was up double digits. So double digit to -- is sort of a big range. Did it improve as you move throughout the quarter?

Joseph Euteneuer - *Mattel, Inc - Chief Financial Officer*

Yes.

Operator

Our next question comes from Felicia Hendrix of Barclays.

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

So just in terms of your caution on the second half, you've talked about that a lot. Just wondering if you could maybe call out for us what segments you're most concerned about. Or is it just kind of more broadly across the board? And then, Richard, just also wondering how we should think about Barbie in the second half. You certainly had an extraordinary growth in POS -- I mean, in shipments rather, in this quarter and in POS, and you kind of walked us through that. But would you expect kind of international to pick up in North America to normalize? Just -- or just how should we think about this superior growth that we're seeing now?

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

Yes. Well, let me take the last part of that first, Felicia. But the Barbie brand for the back half, as I mentioned, has incredibly strong product programmed as well as brand activations. The expansion of Color Reveal, I mean, obviously for spring, we've done incredibly well. We anticipate with new product, even higher price point gift sets and new scales, that we're only going to gain more traction in that particular segment. As I mentioned, back in New York Toy Fair, which seems like a long time ago, we were expanding Barbie's family, Chelsea, pets and various other new ways where that piece of our business was going to start to show up on the scoreboard, which you will see in also the back half.

As well, we've got an incremental fall tentpole of entertainment, a new property for us called Princess Adventures, which is a new story that will air on Netflix in the fall with a robust program behind it, that will continue to, what we believe, drive the momentum on Barbie.

Last but not least, as you know, Barbie is an incredible conversational brand in culture. We've got SHERO inspiring women in careers that we will be sharing in the coming months. And so you can imagine the momentum on this brand will certainly continue, and we're quite confident in the programming.

That being said, international will also, in our minds, start to see the traction as well. Again, the impact of COVID-19 on bricks-and-mortar and retail closures, as we've seen of recent POS, incredible momentum in the portfolio, particularly on Barbie. And with an assumption that things will improve, we maintain a great deal of confidence on the programming that we have coming.

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

Okay. And then just as far as the segments that might be most impacted in the second half, given your cautious comments?

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

There's really not a lot of, I'd say, concerning segments. I think there's an obvious segment within the context of the impact of entertainment. Clearly, Action Figures has been a challenging category for us. As mentioned, almost half of the decline of the company in the context of the quarter was due to Action Figures. We are obviously lapping Toy Story 4 post its movie launch, and with the entertainment shift with Minions, we've lost that piece of the business for the most part in '20, and we anticipate a real resurgence in 2021 on that particular category. There's really not a brand or a segment concern per se as much as conviction around the products and programs that we have currently going into the back half, and it's supported by the POS and consumer sentiment that we see showing up on the scoreboards right now.

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

Great. And just a final -- Ynon, you mentioned there's nine movies in development. I believe there's a date for Masters of the Universe. But are there any dates for any of the -- for the rest of your pipeline?

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

No, we haven't announced any particular dates. And we continue to do the work. There is impact on the industry as a whole in terms of production schedule and release schedule, but we are continuing our creative work. The Wishbone announcement in partnership with Universal Pictures is one project we talked about. There are more that we're working on and continuing to advance the projects we already have in motion. So we're not losing momentum there, notwithstanding the impact on physical production.

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

Good luck to you, Joe, and welcome, Anthony. There are some folks at Barclays Research who've spoken very highly of you, so look forward to working with you in the future.

Operator

Our next question comes from David Beckel of Berenberg Capital Markets.

David James Beckel - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Great. I just wanted to reach back on a previous question a little bit about recent trends. Obviously, the resurgence in the U.S. sort of negated some of the progress we had seen throughout the quarter, and I think a lot of the positive POS trending would correlate with the openings of retail stores.

But I'm curious if sort of reclosures in recent weeks and just general hesitance on the part of consumers has caused any sort of backtracking in POS trends. And I have a follow-up.

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

David, no, we haven't seen that. If anything, the momentum is improving, the trend is positive. Again, still uncertainty, but as we sit here today we're seeing an improving trend.

David James Beckel - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Great. And just as a follow-up, I'm curious about your conversations with very large retailers. Can you give us any sense for how they're thinking about the holiday shopping season? What are some of the puts and takes they're considering as it relates to order levels?

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

I'd point back to what I said before, more generally, without speaking on their behalf, it's a combination of strong demand, strong POS on one side and uncertainty and wanting to manage inventory smartly and prudently on the other side. But for as long as there is demand and strong POS, we are on the good side of the equation.

Operator

Thank you. This concludes today's Q&A session. I would now like to turn the call back over to Mr. Kreiz for closing remarks.

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

As we know, 2020 is a year that is being shaped by exogenous and macroeconomic factors. The second quarter results reflect the challenges that we were facing but also demonstrate our execution capabilities and the resilience of our brands. Given our performance, the strong POS trends and the momentum we had exiting the quarter, we are confident in our ability to navigate through the balance of the year. We believe we have the assets, the resources and the capabilities that position us well to execute our strategy.

Our goals remain the same. We are committed to our strategic road map to restore profitability and regain top line growth in the short-to-mid term and to capture the full value of our IP in the mid-to-long term. We are focused on transforming Mattel into an IP-driven, high-performing toy company and creating long-term shareholder value. I'm grateful for the team's continuing hard work and dedication, especially during these challenging times. We hope that you and your families are healthy and safe, and I will now turn the call back to Dave to provide the replay details. Thank you.

David Zbojniewicz - *Mattel, Inc. - Vice President of IR*

Thank you, Ynon, and thank you, everyone, for joining the call today.

The replay of this call will be available via webcast and audio beginning at 8:30 p.m. Eastern Time today.

The webcast link can be found on our investor page or for an audio replay, please dial (404) 537-3406. The passcode is 3190108.

Thank you for participating in today's call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.