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PRESENTATION

Operator

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

I would now like to introduce your host for today's call, Whitney Steininger. Ms. Steininger, you may begin.

Whitney Steininger

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

As you know, this afternoon, we reported Mattel's 2017 second quarter financial results. We will begin today's call with Margo, Richard and Kevin providing commentary on our results, and then we will take your questions.

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

Before we begin, I'd like to remind you that certain statements made during the call may include forward-looking statements relating to the future performance of our overall business, brands and product lines. These statements are based on currently available information, and they are subject to a number of significant risks and uncertainties that could cause our actual results to differ materially from those projected in the forward-looking statements. We described some of these uncertainties in the Risk Factor section of our 2016 annual report on Form 10-K, our 2017 quarterly reports on Form 10-Q 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.

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

Margaret H. Georgiadis *Mattel, Inc. - CEO & Director*

Good afternoon, everyone, and thanks for joining our call today. I would also like to thank those of you who attended or listened in on our Investor Day last month. We were pleased to walk through our new strategy and provide additional detail on our business and future growth drivers.

On today's call, I'll briefly cover our second quarter performance, which was broadly in line with our expectation. Following that, I'll provide an update on our progress and the plan we outlined at our Investor Day. Richard will then provide additional business updates, and Kevin



will walk you through the numbers in more detail. And then, as always, we'll take your questions.

So let's turn to the second quarter and our results. In constant currency, worldwide net sales were up 3% in the quarter, and gross sales were up 2%, in line with the expectations we shared with you in June.

I'll unpack the quarter in terms of the major drivers. First and most importantly, our key power brands, Barbie, Hot Wheels and Fisher-Price, are performing well. Consumer takeaway at retail continues to show momentum with global POS tracked at wholesale up for each of these brands. Core toys across these evergreen brands continue to sell well with strong second quarter performance from key items like Hot Wheels Basic Cars, the world's best-selling toy. Hot Wheels track sets and play sets also sold well at retail as we focus on improving attachment rates to grow our play system.

In particular, we are pleased with our recently launched Hot Wheels Track Builder System Stunt Box. This system of play combines the magic of Hot Wheels cars and tracks with construction via smartly integrated MEGA BLOKS product and has been a huge hit with consumers across our retail partners. Other top performers include the extremely popular Barbie Fashionistas line, which was recently augmented by an expansion of our iconic Ken line. The buzz around Ken has been great, and early reads tell us consumer takeaway is strong. And the brand's Careers line, which deliver on Barbie's You Can Be Anything messaging by enabling kids to imagine themselves in a diverse range of professions, has shown strong performance in the U.S. and globally. That said, key brand POS outpaced shipping in the quarter. This was driven by tight management of our inventory levels at retail, and to a lesser extent, by the shift to e-commerce, which, as a channel, carries lower inventory. However, given our strong POS momentum across key power brands, we expect shipping to align with retail sales over time.

Turning to our entertainment business. The headline here is Disney's Cars 3 film, which debuted in U.S. theaters on June 16. While still early, I can tell you shipping for Q2 has been generally in line with our expectations, although early POS has been at the lower end of our plan. We are working closely with our partners at Disney to develop activations to enhance consumer demand around the film and DVD release as we approach the holiday season. Offsetting strength in our key power brands is the continued disappointing performance in American Girl and Thomas and MEGA, particularly in North America. Richard will expand on this performance and our turnaround plan in a few minutes.

We are encouraged by our momentum as we progress through the year. Our key power brands remain solid. We are addressing challenged areas, and we are taking the right steps to enter the holiday season with tight alignment around inventory and demand.

I would like to now turn to our strategic growth plan for Mattel, which we articulated last month at our Investor Day event. The goal of our strategy, moving forward, is clear, to future-proof Mattel and deliver enhanced sustainable growth. Although it has only been a few weeks since we presented our strategy to you in New York, we are moving swiftly across multiple areas and wanted to share an update on progress. First, we are laser focused on building our power brands into connected 360-degree play systems and experiences. To this end, we have already begun to implement a consistent, consumer-centric approach for our power brands. As I mentioned at our Investor Day, historically, we have managed each of our brands separately and in different ways. Going forward, we are structuring our organization to manage all power brands within a common framework, aligned against our new strategy and supported by more focused capabilities and resources. We also launched in-depth consumer journey assessments to deepen our engagement programs with our consumers across channels and to enhance our ability to sell through broader systems of play with an initial focus on Hot Wheels and Fisher-Price. These are both brands with significant unlocked direct consumer engagement potential.

Additionally, we continued to build strength in key emerging markets like China, where we are taking big steps to establish Mattel as a trusted leader in learning and development through play. For example, to capitalize on China's \$30 billion early education and training market, we have launched joint ventures with 2 outstanding partners, Babytree and Fosun, to establish learning centers in both suburban and high-traffic commercial settings, enabling us to cover the full market opportunity.

We are also acting quickly to reshape our operations to enable our strategy and become leaner, faster and smarter with progress in each key area. We recently launched a top-to-bottom effort to reshape our commercial organization to better capture market opportunities, simplify our processes and ensure consistent execution across geographies with an emphasis on developed markets. This will also allow us to reallocate

investments to high-priority areas like omnichannel.

To drive our IT transformation, last week, we brought on a new Chief Technology Officer, who comes to us with an extensive experience in driving superior business results through better data-driven decisions, including work in telecommunications, higher education and data security. He is working swiftly to put together a set of prioritized investments to drive efficiency and improved decision making across our enterprise. In addition, our new CTO has extensive experience in software platform development and integrating legacy technology with modern forms of computing such as AI and IoT. We are moving all of our technology-related product and services efforts under this new IT organization with a focus on creating a best-in-class scalable platform for our connected products and services.

In addition, our global supply chain organization recently implemented a new centralized team dedicated to bringing our technology-enabled products to market. This team will leverage a customized project and platform management process to improve speed to market, create appropriate beta testing programs where needed and ensure standardization in hardware, software and firmware to drive both consistent quality and efficiency across all of our connected products.

And importantly, we're moving at full speed to reignite our culture and energize our teams. We have quickly increased engagement by holding monthly town hall sessions, where employees around the world are encouraged to ask tough questions, share successes and hear updates directly from our leaders. And we are implementing new programs to unleash innovation throughout the company with events like Makers Faires that encourage and reward employees to come up with great product ideas that challenge the status quo. At a recent innovation fair at our Fisher-Price Campus, our employees showcased more than 50 new inventions from toys designed to help infants build fine motor skills to an app development kit for older kids. The ideas were stellar and inspiring.

To summarize, we're hard at work, executing against our strategy. And while we clearly have a lot of work ahead of us, I'm proud of the enthusiasm and focus with which everyone at Mattel has embraced our new direction. I'm very optimistic about our future growth potential. I look forward to keeping you updated on our progress in the coming months.

On a final note, I'd like to take a moment to thank Kevin Farr for his many years of service to Mattel. After 25 years with the company, 17 of them as CFO, Kevin is moving on to his next chapter. His deep knowledge of our business and our industry has been extremely valuable. And on a personal level, I deeply appreciate his help in bringing me up to speed quickly as I undertook my role. Kevin, on behalf of everyone at Mattel, I thank you for your dedication for all of your contribution.

With that, I'll turn it over to Richard.

Richard Dickson Mattel, Inc. - President and COO

Thank you, Margo. I'd like to provide more specific updates for several key components of the business that Margo touched on in her review. I'll be focusing on what is driving success, how we're addressing challenges and how we've translated insights, learning and innovations into a strong plan as we approach our most important period of the year.

Margo shared that our key power brands, Barbie, Hot Wheels and Fisher-Price, are demonstrating momentum and strong consumer demand. This is particularly important because they are not only our largest brands but also the pilots for new strategic initiatives and best practices. I'll start with Barbie and the 3 of the brand's key product lines, core dolls, accessories and the expansion into younger girls with Dreamtopia. While each of these lines are showing double-digit POS increases tracked at wholesale, Barbie sales declined in the quarter due to a tough year-over-year comparison with the renewal of our Universal content distribution agreement last year.

Let's take a closer look at what is driving POS strength. Dolls are growing worldwide driven by strength in the U.S. The enhanced diversity of the line is driving brand relevance and encouraging incremental purchase. These dynamics were extended by the relaunch of Ken in June, which is already performing well. And the billion-plus impressions we've generated to date also shows that the brand continues to be an important voice in the cultural conversation. The fast-growing accessories line leverages our system play strategy, offering a wide range of products that bridge Barbie dolls with a complete Barbie world. This is typically a volume driver for the brand in the second half, and we have a strong lineup, including the third-generation Dreamhouse, the latest DreamCamper and the new and innovated DreamHorse. Dreamtopia expands the age range of the brand to younger girls, integrating dolls, content and play sets with age-appropriate and

mom-friendly themes and values. Our demand-creation strategy for the line leverages next-generation content and media. Its launched on YouTube Kids, generated 6 million views in just 6 weeks and was also the #1 video viewed in the U.S. in May. Considering the overall strength of the brand pipeline and the pace of implementation of our new strategies, I am confident about Barbie's momentum going to the back half of the year.

Like Barbie, Hot Wheels is showing strong year-to-date POS growth across most lines. With lean retail inventory levels as we enter Q3 and continued brand momentum, we expect shipping to align over time. The Hot Wheels business is driven by 3 key product lines, diecast cars, tracks and play sets and character vehicles based on licensed entertainment. Let me walk you through some highlights that demonstrate the brand's momentum. Diecast cars, the #1 SKU in our industry, continued to show steady POS growth even with the launch of vehicle-focused theatrical releases like Cars 3, demonstrating the brand's ability to maintain its staying power. Diecast cars are the core of the Hot Wheels brand, though as many fans will tell you, the cars are just the beginning. As Margo shared earlier, we are encouraged by the demand for track sets and other accessories. We are excited about the second half lineup, including an innovative RC racer that expands the brand's technology range and the super Ultimate Garage, which delivers great play for kids and an important storage solution for moms. Additionally, licensed entertainment represents a major growth opportunity for Hot Wheels, and we expect strong slate of second half entertainment-based products, including Star Wars: The Last Jedi, to perform well.

Fisher-Price continues to demonstrate solid consumer demand at retail, with POS up high single digits for the year and growth coming from all lines of the business across most regions. The Fisher-Price business is focused on 3 product lines: BabyGear; infant and newborn; and preschool, which includes Think & Learn.

Let me share some Fisher-Price highlights. In BabyGear, as well as infant and newborn, the continued POS growth is being driven particularly by international. We expect performance in the U.S. to improve in the second half as a result of upcoming TV launches and incremental retail promotions. While we anticipate continued margin and share pressure from competitors in the second half, we will be counterprogramming with a new infant product lineup. Highlights include the Smart Stages Puppy relaunch and the On-the-Go Baby Dome, the winner of the Best New Product award from the Juvenile Products Manufacturers Association. In preschool, we are focused on the #1 priority of today's parents, stimulating play patterns to encourage learning and development. The Think & Learn Smart Cycle, exclusive to Amazon, reflects a new approach to retail partnerships and marketing. This product has breakout potential, bringing app-based learning and role play to life with a physical play experience that stimulates kids' minds and bodies.

In June, I shared the challenges and turnaround plans for the MEGA, American Girl and Thomas brands. While we are making important changes this year, we expect to see improved momentum over time.

On MEGA, while we experienced softness in the U.S. due to increased competitive advertising and value players, we were pleased to see Q2 POS gains in Latin America and Europe. This fall, we are launching new core products as well as licensed lines like Pokemon. We will also be implementing new strategic marketing and focused promotion.

On American Girl, we are continuing to stabilize the business, implementing the plan I shared during Investor Day. This includes restoring the brand's premium positioning with renewed commitment to quality and packaging and product; the rollout of new CRM digital tools; and our new flagship store, which will feature bold new experiences, new aesthetics, opening this November in New York.

Our Thomas business remains challenged due, in part, to competitive pressure in the preschool space from powerful content creators. New initiatives are underway, including an expansion of the brand through our system of play strategy, a renewed emphasis on licensed partnerships and 2 new opportunities: toddlers and girls. There are also significant new products, notably the Thomas SuperStation, which is highly innovative and launching at a great price point. Much of the demand-creation plan is weighted to the back half of the year, the brand's key selling season.

Looking beyond our largest owned brands, I'd like to turn the important licensed entertainment products and new brand development from our innovation pipeline. The Cars 3 product launch is our licensed entertainment highlight year-to-date and an example of how Mattel is better leveraging our global scale and execution capabilities on behalf of our entertainment partners. And while Cars 3 POS performance is a

bit slower than anticipated in the U.S., as Margo noted, we are working closely with Disney to support and enhance consumer demand for the back half of the year.

Recognizing the continuous declines from Monster High and Ever After High, we launched Enchantimals in June. Enchantimals is an all-new Mattel franchise inspired by important cultural and toy trends. Enchantimals leverages a digital-first strategy, targeting girls and moms with an immersive brand experience that will continue through the back half of the year.

In closing, our key power brands, Barbie, Hot Wheels and Fisher-Price, are performing well and showing continued POS momentum. Other areas of our business are more challenged, and we're taking the right steps to stabilize and improve their performance over time. As we enter the back half of the year, our focus is on relentless execution to drive consumer demand. That means maintaining our focus on strong retail partnerships, top toy list placement, ensuring we have the right space commensurate with brand volume and aligning shipping with POS.

A focus on digital, we've increased our digital investments 1.5x as a percentage of our overall media mix. Digital enables us to better focus on where kids and parents are consuming and shopping and significantly increases our retail digital conversion. And a focus on prime-time placement, capturing millennial family co-viewing occasions, which are increasingly important purchase drivers in our business. The Toy Box Season 2 is launching in the U.S. this fall and will build to a preholiday finale to drive commercial potential.

I look forward to updating you on our continued progress next quarter. And now, I'll turn it over to Kevin.

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

Thank you, Richard, and good afternoon, everyone. My plan for today is to walk you through our second quarter results and discuss potential headwinds and tailwinds for the remainder of the year. But before going any further, I want to remind everyone that, unless otherwise noted, I'll be referring to net and gross sales in constant currency to provide better visibility into the underlying top line trends. And to provide more transparency in the fundamentals of the business, I'll also reference some adjusted financial results that exclude nonrecurring executive compensation and severance related to our business transformation. As always, reconciliation to GAAP numbers are provided in our press release and slide deck.

So let's walk through the P&L, beginning with the top line. In the second quarter, net sales were up 2% as reported and up 3% in constant currency versus the prior year. Gross sales were up 1% as reported and 2% in constant currency. From a brand perspective, sales growth in the second quarter was driven primarily by Cars 3 and partially offset by continued declines in Monster High and Ever After High, continued softness in MEGA, American Girl and Thomas and a decline in Barbie due to a tough year-over-year comparison with last year's renewal of our content distribution agreement with Universal. Excluding last year's licensing revenues from the content distribution deal, Barbie was up low single digits on a global basis for the quarter with global POS up double digits.

Looking at the business by region. We were pleased by the broad-based strength of our international segment this quarter with gross sales growth of 6% as reported and 8% in constant currency and POS up low double digits. More specifically, we saw sales acceleration in the quarter in our Latin American business. We also saw sequential improvement in our European business and continue to see strength in key emerging markets like China. International growth was partially offset by declines in North America.

Gross sales in North America were down 2% as reported and in constant currency. For the quarter, POS for North America was up mid-single digits. While we faced some short-term headwinds in the second quarter, it's still early in the year with a majority of the business for the year still in front of us. And we remain focused on executing the strategies we laid out for the organization.

Exiting the first quarter, the retail inventory overhang from 2016 holiday period have been addressed. While global POS continued to outpace shipping in the second quarter, the high single-digit POS momentum of Barbie, Hot Wheels and Fisher-Price year-to-date resulted in leaner retail inventories versus the prior year as we entered the third quarter. The combination of strong POS and leaner retail inventories gives us confidence that shipping will align with POS over time.

Moving on to the other P&L drivers. Sales adjustments were 8.8% in the quarter versus 9.1% in the prior year period. Our reported gross margin for the second quarter was 41%, down 430 basis points versus 45.3% in 2016. During the second quarter, gross margin was primarily

impacted by increased royalties due to the higher sales of our licensed entertainment properties, unfavorable mix due to a shift away from our (inaudible) margin doll business, lower licensing income and slightly elevated product costs due to the timing of year-over-year cost savings program.

Strategic pricing partially offset these headwinds. There was steady improvement in our gross margin rate from the first quarter as we continued to gain scale with revenues increasing sequentially in the second quarter. Additionally, we incurred a lower obsolescence expense in the second quarter and saw very little impact from ForEx as compared to the first quarter.

Continuing on. As planned, advertising was down slightly as a percentage of net sales for the second quarter. While we remain disciplined in SG&A, adjusted SG&A was up approximately \$12 million or 4% year-over-year for the quarter, driven primarily by employee costs-related to merit increases; investment in the expansion of American Girl, including the new store opening in New York City this fall; as well as continued investments and China growth.

Finally, adjusted EPS for the second quarter was a loss of \$0.14 compared to the prior year loss of \$0.02. Our year-to-date tax rate was 22.8%, including discrete items. Excluding discrete tax items, our tax rate was 21.6% year-to-date, which is consistent with our expectations for the full year.

Now turning to balance sheet and cash flow. Receivables were up \$123 million year-over-year, primarily due to the later sales in the quarter as well as country and customer mix with longer sales terms. We expect 2/3 of the increase in receivables to be collected in the third quarter. And as expected, our owned inventory was up year-over-year, partially due to lower year-to-date sales and the support to continued positive global POS trends we're seeing for Barbie, Hot Wheels and Fisher-Price; and our licensed entertainment launches throughout the year. Overall, we are comfortable with our inventory, both owned and at retail as we enter the third quarter.

We ended the second quarter with \$275 million in cash. Year-to-date cash from operations was negative \$549 million, down \$308 million year-over-year due to lower net income as well as heightened levels of receivables and inventory. More specifically, the year-over-year decline in cash flow from operations was driven primarily by lower net income of \$77 million, higher accounts receivable of \$126 million and higher Mattel-owned inventories of \$13 million.

And as I said earlier, while our key power brands showed continued momentum, American Girl, Thomas and parts of our innovation pipeline are performing below our expectations. In light of these challenges and our plans to continue to invest in our business as well as in our new strategies, we may not have sufficient flexibility under the current debt-to-EBITDA ratio of our credit facility at the end of the third quarter of 2017. Accordingly, we intend to amend the ratio under the credit facility before the end of the third quarter, and we are highly confident we'll be able to do so. At June 30, 2017, Mattel was in compliance with its debt-to-EBITDA ratio.

We continue to deploy capital in a disciplined manner to both manage the business and reward shareholders. As expected, capital expenditures were up in the second quarter as we continue to make investments to grow the business, including the increases in automation, as well as to build a new American Girl store in New York City.

Our second priority after investing in the business is to continue to reward our shareholders with a dividend. As announced at our June Investor Day, our board declared a third quarter dividend of \$0.15 per share compared to \$0.38 per share in the third quarter of 2016. The dividend was rightsized to facilitate the strategic investments Margo presented last month, increase financial flexibility over time and strengthen our balance sheet.

Our third priority will be to evaluate, as appropriate, strategic partnerships, M&A opportunities and share buybacks as we seek the highest available returns on our capital. And while we continue to target year-end cash balance of about \$800 million, we expect to come in below our target again this year. However, we believe we will continue to have sufficient liquidity to invest in the business.

To position ourselves for a strong 2018, our overarching goals for 2017 are to exit the year with POS momentum overall, particularly in our key power brands, and to end the year with clean retail and Mattel-owned inventory levels. And as I've said at our Investor Day in June, we



recently completed a rigorous strategic review with Margo and the senior leadership team. We made some tough calls to temper our revenue expectations to low single digits for the full year. While we began 2017 expecting top line growth from the mid- to high single digits for the year, our low single-digit expectations reflect lower sales for Thomas, American Girl and MEGA, which represents about a half of the reduction of our full year revenue outlook, as well as the impact of lower sales from our fragmented innovation pipeline, which we are rebalancing and refocusing for the rest of 2017 for improved productivity.

As we look ahead, we continue to target low single-digit sales growth for the year and expect the growth from the second half to be driven by incremental licensed entertainment portfolio, including Disney's Cars 3 and Warner Bros.' Justice League; our key power brands, Barbie, Hot Wheels and Fisher-Price; and our strategic investments in emerging markets, which will partially be offset by continued declines in Monster High and Ever After High. Additionally, we expect second half sales to be more weighted towards the fourth quarter as consumers continue to buy later, which reflects the timing of our promotional efforts and marketing spend, the timing of our new product launches and how retailers are likely to tightly manage inventory leading up to the holiday season.

We expect continued gross margin headwinds in the second half versus 2016 due to lower licensing income, including last year's franchise licensing agreement to expand American Girl into the Middle East and mix royalties due to more entertainment-based properties, including Cars 3. However, we do expect sequential margin improvement in the second half of the year compared to the first half of the year due to the seasonal scale of our revenues relative to the first half of the year. The unfavorable year-over-year mix impact will be less severe in the second half since the weighting of Cars 3 revenue as a percentage of total Mattel revenue will be substantially less in the second half of the year than the first half of the year. And while we've already begun making progress on the strategies presented at Investor Day, we continue to focus on running the business and ensuring very strong execution in the upcoming holiday season.

Additionally, we remain committed to continuous cost improvement with our 2-year \$240 million cost savings initiative led by our global supply chain organization, which will help offset inflation and labor rates and product cost. As a point of clarification from Investor Day, over the medium term, we expect the cumulative incremental investment in our strategy of around \$250 million to \$350 million. Our goal is to partially offset our strategic investments over time by freeing up an additional \$150 million to \$200 million as we reshape our operations and see savings via commercial realignment, supply chain transformation and the future benefits of IT transformation process to optimize critical business decisions.

As for the timing of our strategic investments, we're still working through the exact phasing of some of the investments. When we complete this work, we'll provide milestones against which you can measure our progress.

Before I close, I'd like to address the recent announcement of my departure from Mattel and CFO transition. Having spent over 17 years on the leadership team here, it's time for me to pass the baton. However, I do plan to stay on board in the interim to ensure a smooth transition. I'm excited about the new strategy and confident that the new leadership team will both transform Mattel and regain our leadership in the industry. It's truly been an honor and a privilege to be part of this great company, and I will truly miss all the very talented people at Mattel.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Felicia Hendrix with Barclays.

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

Kevin, can we kind of start on this point you made about the revolver, the credit -- the revolver covenant? And you -- in your comments, it seemed like you thought that there'd be some flexibility. But if there's not, that's obviously not a good outcome. So can you help us feel comfortable with this?



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

Yes. I think it's pretty simple. We're highly confident that we can amend the ratio under the credit agreement before the end of the third quarter. We've been talking to our lead banks, and we're highly confident that we will be making that amendment.

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

Okay. And Margo, kind of bigger-picture question for you, something that we get asked all the time. You laid out very nicely and clearly at the Investor Day kind of your road map and your plans to get this company on its right foot. Obviously, that's going to take time, and I think it would be unfair to hold you to a time line. But we do get asked often kind of how long this turnaround might take or how long your objectives might take to actually start being seen by the investment community.

Margaret H. Georgiadis *Mattel, Inc. - CEO & Director*

So thank you for the question. We do want to be as transparent as we possibly can, which was the approach we had to pull that Investor Day as soon as I started, as we practically could. The transformation is significant and comprehensive because we are remapping the company for the future, reshaping our brand, our commercial supply chain organization so we can deliver the vision that we laid out. It will take time to put all those steps together and reposition them. And as we have the road map that we can share back with you, which should happen in the next coming months, we will absolutely be as transparent as we can about the time frames. Hopefully, as you look forward, you will begin to see a truly differentiated company that's set up to win in a future where kids are really acting very differently than they have in the past. So we're excited about that. And obviously, the now multiple years of consistently strong POS for our key power brands should give you the confidence these are the brands that anchor our company, and we have plans to sustain them going forward.

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

Okay. And my final question. Just with the weaker than expected POS for Cars, is \$300 million still your goal?

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

It's Richard. Shipping for the second quarter has been generally aligned with our expectations. Although, as noted, that early POS has been a bit at the lower end of our plan. As mentioned also, we've had solid performance internationally. But we will continue to carefully align production to our evolving outlook, and we're working carefully and closely with Disney to activate all the support systems and enhance consumer demand around the film as we approach the holiday season.

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

So to interpret, are you kind of maybe backing off from that prior objective a little bit now given what you've seen?

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

No. We're still on track for our goals. And as I mentioned, international is strong. U.S. has started off a bit soft, but we anticipate as we drive the back half, the partnership with Disney and the execution at retail, we're on track to deliver our plan.

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

Yes. Just I think with regard to the \$300 million, I think at this point, we don't think we're going to exceed the \$300 million. But we're tracking it closely, and we're going to build what we think we can sell. And I think we've got some good results outside the U.S. We're going to track the U.S. closely. And if it's lower, we'll build lower. And we don't expect it to be substantially lower than the \$300 million.

Operator

Our next question comes from Michael Ng with Goldman Sachs.

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

Great. Maybe just to follow up to Felicia's question. I thought -- I was wondering if you could just elaborate a little bit on the activation that you're implementing with Disney in the second half to improve POS for Cars.

Richard Dickson Mattel, Inc. - President and COO

Their -- we're working very closely with Disney. We have incredible marketing and promotional programs throughout the world. They're fully supporting the activation of the Cars 3 franchise, both in our aisle and outside the aisle. Retailers continue to support the franchise, which has been over decade's worth of well-known, if you will, performance around the world. And so as we drive towards the DVD launch and various other promotional plans around the world, we're confident in the execution. And as I mentioned, our close partnership with Disney and our retailers are driving towards the planned performance at the end of the year.

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

Okay. And just on Hot Wheels. The double-digit POS growth for the brand was pretty impressive. I was just hoping that you can elaborate a little bit on the disconnect between the POS and the sales decline in the quarter. I think it was just particularly stark. I think this is the first time Wheels has declined in 3 years. Thanks.

Richard Dickson Mattel, Inc. - President and COO

In general, the disconnect between our POS and shipping in the second quarter is largely North American related. And as we have stated, from a -- POS outpaced shipping in the quarter. It was driven by tight management of our inventory levels. And again, as Margo mentioned, a lesser extent, the shift to e-com as that channel continues to carry the lower inventory level. The short-term disconnect between POS and shipping are not unusual in our business, and they typically align over time. And the trends are obviously different across markets. And we are enjoying a POS momentum across all of our key power brands, and we are expecting the shipping to align with retail over time.

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

Okay. And just a quick follow-up for Kevin on the covenant for the credit agreement. What's the actual ratio where the covenant becomes an issue? And where do you think you can negotiate that up to?

Kevin M. Farr Mattel, Inc. - CFO

Yes. With regard to the current covenant, we've renegotiated it in the second quarter to 3.75. And at the time of the June amendment, we did not have Q2 [actual] results. So we looked at the timing of revenues for the second half, which currently we see more of that shifting to the -- from the third quarter to the fourth quarter. So given our 2Q performance and the shift in revenues, we want to make sure we have sufficient flexibility on the current debt-to-EBITDA ratio of our credit facility at the end of the third quarter of 2017. We're still looking at that. We've talked to our lead banks, and we haven't determined what we're going to take that ratio up to. But it will be higher than 3.75. And accordingly, we're going to attempt to amend that in the third quarter. And we're highly confident that we can get that amendment based on the discussion with banks.

Operator

Our next question comes Arpine Kocharyan with UBS.

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

Seems like the outlook for full year in terms of sales is unchanged, up low single digits. That still implies mid- to high single-digits growth in the back half with some tough comps ex Disney Princess, I guess, in Q3. As you look at the business today, I guess what gives you confidence that type of growth is attainable? And then I have a follow-up.

Kevin M. Farr Mattel, Inc. - CFO

Yes. I think as you said, we are sticking to our low single-digit growth for the year. And when we look at the drivers, first, it's -- we've got POS momentum in our key core brands, and we're looking at incremental license entertainment portfolio, including Disney Cars 3 and Warner Bros.' Justice League. As I said, our key power brands of Barbie, Hot Wheels and Fisher-Price and our strategic investments in emerging markets, which again, I think would be partially offset by continued declines in Monster High and Ever After High.

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

Okay. Margo, when we last saw you at the Analyst Day, there was a bit of uncertainty surrounding the reinvestment plan. And I understand not much has passed since mid-June, but perhaps you could give us an update on that reinvestment plan, specifically what could hit P&L from OpEx perspective and what could be under CapEx? At least for this year, how much do you plan to spend?



Margaret H. Georgiadis Mattel, Inc. - CEO & Director

So Arpine, as you know, we just hired our new CTO last week. And one of the biggest investment area is our IT infrastructure. So he is undertaking a full review over the next 30 days. We actually have a board meeting at the end of August, and we're planning to try to expedite our decision-making around the way in which we want to pace and optimize those different investments. So as soon as we have that information, we will get that to you as quickly as possible.

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

Kevin, just a little bit more clarification on the credit agreement and relative to commercial paper. If you could just remind us on a seasonal basis -- the industry generally uses commercial paper. But just sort of the mix as we roll through the year of the commercial paper revolver usage and just to give us a little bit of that. And then Margo, Kevin, Richard, whoever wants to take this. On the inventories by year end, it would appear that due to increasing e-commerce and so forth but also may be due to, as you're looking to tighten up the overall demand forecasting production planning, do you really want to exit this year extremely clean with inventories? And would that potentially against the Cars 3 set you up for some potential revenue growth in '18?

Kevin M. Farr Mattel, Inc. - CFO

Okay. Well, let me first take the revolver versus commercial paper. We haven't really accessed the revolver since 2009. We basically have great liquidity in the commercial paper markets, and the revolver was a backup facility of those commercial paper markets. Regarding inventories, again I think what we're really looking at is to tightly manage our inventory, both our owned inventory, and we want to end the year clean with regard to retail inventories. So as I said earlier, we've made the tough decisions, really, right now as to what we expect to sell in the second half based upon our POS trends. And what we're trying to do is ship in what's going to sell through. And then we want to end the year with clean inventories at retail as well as our owned inventories. I think with regard to the Cars question, we're going to wait to see what happens with regard to the release of the DVD and streaming on-demand. And we will adjust accordingly in our production in the back half of the year to support revenues in 2018 if there's more revenues that will be generated because of strong POS around the globe.

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

And Margo, again, we appreciate everything that you outlined. And I think from a broad perspective, very well done in June and that there are a lot of moving parts, the CTO you just described, the hire and what's going on there. You said in, I think, earlier that over the road map turnaround, I guess, time line over the coming months, should we anticipate something maybe 90 days from now or on Q4 call as far as maybe that mix of OpEx, CapEx and the cadence over as we look out into '18 and maybe that goes through early '19? I guess from like -- would that be a third quarter, fourth quarter potential we get a little bit of that time line?

Margaret H. Georgiadis Mattel, Inc. - CEO & Director

So we are very committed to providing transparency around the transformation plan. So what you can definitely expect us to do is, on every call, to give you an update on specific actions that we've been taking and the progress that we're making against the areas that we outlined against on the transformation, which is why even on this call, even though it's been such a short amount of time, we wanted to share some of the specific actions that we've already taken in just the last few weeks since we saw you in New York.

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

Okay, okay. Last question would be your power brands, you've been very, very clear on but some other brands that have maybe -- have not been as prominent. And just focusing the organization's resources and attention, could we see some of the owned brands over a period of a few years here just basically bleed those down and then toss them in the vault here for a few years? Is that a reasonable assumption?

Richard Dickson Mattel, Inc. - President and COO

As we've always said, we are continuing to innovate in our core brand portfolio. The key brands, of those obviously Barbie, Hot Wheels and Fisher-Price, are gaining more momentum. Certainly, we have our challenged brands that we've talked to you about in terms of American Girl, Thomas and MEGA. And our biggest challenge has been Monster High. And as I've mentioned, we're driving innovation in our girls portfolio with Enchantimals being new brand for us that we're excited about. We've introduced, obviously, other new brands and inspiring

new girl play patterns based on insights with Super Hero Girls and most recently announced with WWE a new line of worldwide wrestling female figures. So there's been a lot of innovation that we're working on, both with our own IP and with our licensed partners. Examples, of course, is Jurassic as we move forward. But ultimately, we have a strong innovation pipeline plan, and we will continue to update you accordingly.

Margaret H. Georgiadis Mattel, Inc. - CEO & Director

Maybe to add to that, the question, I think, we definitely see tremendous growth opportunities in our power brand franchises. So we will be investing heavily behind those as the new initiatives evolve. Obviously, the top 3 are firing at all cylinders across the globe, so we're going to step on the gas there. For the ones that are in turnaround, we're going to ensure we have great turnaround plans for them in place, so that they can realize their full potential like Thomas and American Girl because these are amazing franchises that we can revitalize and are taking every action we can. I would then think about we have a portfolio of more category-oriented brands, which we bring to market at retail. And they play a very important role in different markets for different reasons. And so we do believe in those brands. But we want to make sure that we're thinking about our category strategies and Richard is spending a lot of time with his team, really thinking about strategy for the girls category, the vehicles category, the games category. These are all categories we've performed well. And then we're working on optimizing our license partner portfolio. Our entertainment partners are incredibly important to our business, and we really value the quality of relationships we have with people like Disney, Universal and Nickelodeon. And what we're working with them on is how can we think as innovatively as we can about how we can develop new franchises together, so that we can maintain a deeper pipeline of those great story-driven brands.

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 when you talk about the return to a premium positioning of American Girl, can you sort of explain a little bit more what that means? Because it sort of implies that Wellie Wishers has cannibalized the positioning. So is it something regarding changing Wellie Wishers or something there? How do you intend to reestablish the premium positioning of American Girl?

Richard Dickson Mattel, Inc. - President and COO

Sure. I think it references back to our investor conversation. And the primary effort that we have right now is investing in the product and the product experience as well as our own retail store experience and online experience. We have made significant strides and changes in recent days, if you will, to ensure that the premier positioning of the brand from a product perspective is enhanced as well as looking at our retail experiences. And most notably, you'll see it on our New York City flagship, a real new aesthetic, new experiences to go with that, and ultimately, a great product presentation that is more reflective of the premier positioning of the brand itself. We will be able to share a lot more with you. And I invite you to the store, of course, to see it for yourself, and we can certainly walk you through some of the exciting changes that we're making on that brand.

Margaret H. Georgiadis Mattel, Inc. - CEO & Director

On your specific -- it's Margo -- question, on Wellie Wishers. That's been a very successful franchise of ours, and it's been a wonderful way to introduce many, many more girls to the franchise, shares all the values of the original American Girl dolls. And so we're excited about the potential of that franchise, and we have been pleased with being able to offer expanded distribution for that franchise as a way to help people more understand the power of the American Girl story.

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

Okay. And can I just ask sort of a question about the upcoming holiday season? Thinking about what happened last year, Christmas, with the retreat of consumer demand after Black Friday and then the discounting that occurred into the Christmas period, is there anything that you would do differently this year if the same kind of slowdown were to occur? I mean, you did share pretty significantly the burden of the promotion with the retailer last year. Is there something you would do differently if the same scenario were to play out again?

Richard Dickson Mattel, Inc. - President and COO

I think that obviously this year and probably subsequent years, going forward, increased focus on the omnichannel execution. We are driving an increased amount of digital presence as we execute our promotions online and drive consumer demand. We have learned a lot in the space and the idea of the seamless shopping experience for the consumer. We are driving tight alignment between our shipping and POS expectations with our retail partners. And as you know, the back half of this business with bricks and mortars, particularly important in terms of block and tackling, both in aisle space, incremental space, those top toy lists and ensuring that we have the right product, price and promotion happening when the ducks are flying. So we are driving what we know how to do very well, which is execute against this category at retail and working on all the learnings to improve our performance.

Kevin M. Farr Mattel, Inc. - CFO

Yes. And I'll just add to that. I think with regard to making those tough calls we talked about to temper our revenue expectations for the year, we're doing that right now. We're looking at year-to-date POS, and we're aligning sort of our full year revenues with regard to what we think POS is going to be for the balance of the year. So we went from mid- to high single digits to low single digits. And I think that's going to be a big part of execution in the fall that we ship in what's going to sell through and that we end with clean retail inventories as well as our owned inventories in our warehouses.

Operator

This concludes today's Q&A session. I would now like turn the call back over to Whitney Steininger for closing remarks.

Whitney Steininger

Thank you, everyone, for joining the call today. There will be a replay of this call available via webcast and audio beginning at 8 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 47074747. 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 now disconnect. Have a great day.

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