THOMSON REUTERS

EDITED TRANSCRIPT

Q4 2018 Mattel Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 07, 2019 / 10:00PM GMT

CORPORATE PARTICIPANTS

Joseph J. Euteneuer *Mattel, Inc. - CFO*
Richard Dickson *Mattel, Inc. - President & COO*
Whitney Steininger *Mattel, Inc. - Manager of IR*
Ynon Kreiz *Mattel, Inc. - Executive Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Arpine Kocharyan *UBS Investment Bank, Research Division - Director and Analyst*
Eric Owen Handler *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*
Felicia Rae Kantor Hendrix *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*
Gerrick Luke Johnson *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*
Gregory R Badishkanian *Citigroup Inc, Research Division - MD and Senior Analyst*
Jaime M. Katz *Morningstar Inc., Research Division - Equity Analyst*
Michael Ng *Goldman Sachs Group Inc., Research Division - Research Analyst*
Raymond Leonard Stochel *Consumer Edge Research, LLC - Analyst of Interactive Entertainment*
Timothy Andrew Conder *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Mattel Fourth Quarter Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Ms. Whitney Steininger with Investor Relations. Mr. Steininger, you may now begin.

Whitney Steininger ***Mattel, Inc. - Manager 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; and Joe Euteneuer, Mattel's Chief Financial Officer.

As you know, this afternoon, we reported Mattel's 2018 Full Year and Fourth Quarter Financial Results. We will begin today's call with Ynon and Joe providing commentary on our results and then we will provide time for Ynon, Richard and Joe to take your questions.

To help guide our discussion today, we have provided you with a slide presentation. Our discussion, slide presentation and earnings release reference non-GAAP financial measures, including gross sales, adjusted gross profit and adjusted gross margin; adjusted other selling and administrative expenses; adjusted operating income or loss; adjusted earnings or loss per share; earnings before interest, depreciation and amortization, or EBITDA; adjusted EBITDA; and constant currency.

Additionally, the sales figures referenced on this call will be stated in constant currency. The information required by Regulation G regarding non-GAAP financial measures is included in our earnings release and slide presentation, and both documents are available in the Investors section of our corporate website, corporate.mattel.com.

Before we begin, I'd like to remind you that certain statements made during the call may include forward-looking statements relating to the future performance of our business, brands and product lines. These statements are based on currently available information, and they are subject to a number of significant risks and uncertainties that could cause our actual results to differ materially from those projected in the forward-looking statements. We describe some of these uncertainties in the Risk Factors section of our 2017 annual report on Form 10-K, our 2018 quarterly report on Form 10-Q, our earnings release and the presentation accompanying this call, in other filings we make with the SEC from time to time as well as in our other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so, except as required by law.

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

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

Thank you everyone for joining our fourth quarter earnings call. We are happy to announce our fourth quarter results which demonstrate meaningful progress in executing our strategy and significant improvement over last year.

As we described last quarter, we have a two-part strategy to drive our transformation to become an IP-driven, high-performing toy company. In the short-to-mid-term, our priorities are to restore profitability and regain top-line growth by reshaping operations, growing our Power Brands and expanding our brand portfolio. In the mid-to-long-term, we will capture the full value of our IP through franchise management and develop our online retail and e-commerce capabilities. Today we can report that the strategy is continuing to demonstrate tangible results.

In terms of restoring profitability, we are tracking ahead with our Structural Simplification program. Exiting 2018, we achieved $521 million of run rate cost savings. We now expect to exceed our overall cost savings target of $650 million exiting 2019. This helped us achieve a reported gross margin of 46.6% in the quarter and 39.8% for the full year. This is the first time we have delivered a gross margin improvement for the fourth quarter and the full year since 2013.

Our adjusted operating income was a positive $113 million in the quarter, up $276 million compared to a loss of $163 million in the prior year. With that, we achieved the largest year-over-year improvement in operating income for each of the fourth quarter and full year since 2009.

In terms of regaining top-line growth, Barbie and Hot Wheels continued their momentum throughout the year. We executed well in our two largest regions, North America and Europe, and maintained our strength in Latin America and Global Emerging Markets excluding China. As a result of this performance, we are proud to say that we recaptured our leadership position as the #1 global toy company in 2018, according to NPD.

In terms of capturing the value of our IP, our newly launched Mattel Films announced several important movie deals with major studios and key talent, and we are making progress in other highly-accretive business verticals as well.

Regarding Partner Brands, we demonstrated our strength as a licensing partner with Jurassic World having its biggest toy year ever. While we have more work to do, we are very encouraged by our progress to date.

Taking a more macro view: Not surprisingly, the global toy industry declined 2% in 2018, according to NPD. This was driven primarily by the retail disruption related to Toys "R" Us, less successful new brand launches compared to 2017 and a lighter entertainment slate.

Despite challenges affecting the retail landscape in 2018, both in the U.S. and Europe, we did well this holiday season. Our teams around the world worked tirelessly, collaborating with key retailers as they leaned into the toy aisles. This is a testament to our strong brands and ability to execute even in tough market conditions, as well as Mattel's strategic, long-standing relationships with our retail partners. As we said last quarter, the toy industry is expected to grow on a global basis through 2022, according to Euromonitor, and we intend to accelerate our own pace and increase market share.

Now I will walk through our brand and regional results. In terms of brand highlights, 2018 was a great year for Barbie, with sustained growth and continued momentum globally. Barbie worldwide gross sales were up 15%, both for the quarter and the full year in constant currency. This marked the fifth consecutive quarter of year-over-year growth for the brand and the highest full year gross sales in the last 5 years. Global POS continued to be strong and was up mid-single digits in the fourth quarter and up double digits for the full year. The brand delivered sales and POS growth in every region for the full year. With this level of performance, Barbie was the #1 global fashion doll property in 2018, according to NPD. We look forward to celebrating her 60th anniversary throughout 2019 with a number of exciting product launches and events.

Hot Wheels worldwide gross sales were up 12% in the quarter and 9% for the year and reached its highest annual sales in its 50-year history. Global POS was up low-single digits in the quarter and up high-single digits for the full year. POS for the full year also grew in every region. According to NPD, it was the #1 property globally in the vehicles supercategory in 2018.

Fisher-Price and Thomas & Friends gross sales were down 15% in the fourth quarter, which included a negative 9% impact from Toys "R" Us, before reabsorption. Global POS in the quarter was down similarly. Fisher-Price was one of the Mattel brands most heavily impacted by the liquidation of Toys "R" Us, as well as challenges we have faced in China. As the effects of Toys "R" Us moderate and move back to channel inventory in China, the brand will be in a better position to restore growth.

The Infant, Toddler and Preschool category is the single largest category in the toy industry and it is an important space for us. According to NPD, we have been and remain #1 in the category globally and we believe if we are successful in our Fisher-Price turnaround plan, there is significant upside potential to be captured.

For Thomas & Friends, we launched new content in 2018, which is resonating in international markets, especially in the U.K. In the U.S., there has been a longer than expected release timeframe for the new content, resulting in limited incremental exposure. We are taking a fresh look at Thomas holistically and looking at other ways to improve the entire consumer experience.

American Girl is in the midst of a multi-year turnaround. We believe in the potential of this beloved franchise and are focused on restoring its premium position through revitalizing brand experiences, both online and in our flagship stores. While it will take time to implement the changes and achieve the desired outcome, this franchise very much remains a valuable and important part of the Mattel portfolio.

In terms of partner IP, we have focused on strengthening the relationships we have with many leading entertainment companies and consumer brands. As mentioned, Jurassic World exceeded all expectations in 2018, delivering the biggest toy year ever for the franchise in partnership with Universal. This is a great example of how we are advancing Mattel as a partner of choice for third-party IP owners by leveraging our worldwide reach through innovation and global execution capabilities.

Looking into 2019, we are particularly excited to introduce our highly-anticipated Toy Story 4 product line in partnership with Disney. We are also launching a new line based on BTS, the world's leading South Korean boy band which has become a cultural sensation with global appeal. We look forward to the launch of this multi-category collaboration this summer.

Turning to our regional performance. In North America, we ended the year as the largest toy company in the region, according to NPD. Notably, while we lost some market share, we managed to maintain our position as the #1 toy company in the U.S. in 2018, which makes it the 25th consecutive year we held the top spot in the largest toy market in the world.

In the fourth quarter, we made meaningful progress towards stabilizing revenues in the region relative to the prior year, even with the impact of Toys "R" Us. Gross sales were down 10% in the quarter including a 17% negative impact from Toys "R" Us, before reabsorption. Our progress was supported by our strong and deep distribution network of more than 135,000 doors in the U.S. alone. We have worked closely with our retail partners to align on omnichannel strategies to ensure our joint customers are served with the right product, in the right stores, at the right time.

In Europe, we are seeing tangible signs that our regional transformation plan is starting to show results. Gross sales for the quarter were up 1%, despite a negative 5% impact from Toys "R" Us, before reabsorption and other industry headwinds. POS improved in Europe with low-single digit decline for the quarter. We have continued to build our European e-commerce capabilities and expanded our presence with value retailers. As mentioned in our third quarter earnings, Europe represents an important opportunity for us given the size of the market, the strength of our franchises and the capabilities of our local teams on the ground.

In Latin America, gross sales were flat in the fourth quarter. We maintained our position as the #1 toy company in the region in 2018 according to NPD. In Global Emerging Markets, gross sales were down 10%, including a 15% impact from the slowdown in our China business, partially offset by strong performance in Russia and Turkey.

In China, the team on the ground has made solid progress improving the retail inventory issue we talked about last quarter. We expect to work through the remaining inventory by mid-2019.

In total, International gross sales for the quarter were down 2% including a 4% negative impact from China and 3% negative impact from Toys "R" Us, before reabsorption.

As we said on our third quarter earnings call, we expect to advance our manufacturing footprint towards a capital-light model during 2019. We continue to believe that this will be advantageous and value accretive and are evaluating several scenarios that will be aligned with our business objectives. We expect the transition to help us achieve improvements to gross margin that will be incremental to the value we will capture from our Structural Simplification savings.

As mentioned before, Mattel is the owner of one of the strongest portfolios of kids and family entertainment IP and franchises in the world. With the creation of Mattel Films and our new Global Franchise Management organization, we are targeting opportunities to develop our IP and extend our iconic franchises across several large, mainstream business verticals that are adjacent to our core toy business. These areas include film and television, digital gaming, live events, music and consumer products and merchandising. We've recently made several announcements for the first ever live-action feature films for some of our key franchises, including Barbie with Warner Bros. starring and co-produced by Margot Robbie, Masters of The Universe with Sony, Hot Wheels with Warner Bros and more to follow.

We also announced that Adam Bonnett, formerly Global Head of Original Programming at Disney Channels Worldwide, has joined us as Executive Producer, Mattel Television. He brings over 20 years of experience in high quality children's television and will lead our global episodic content development and production for live action and animation programming. These are exciting developments for Mattel.

In closing, our mission is to create innovative products and experiences that inspire, entertain and develop kids through play. After 10 months on the job and three consecutive quarters of solid, disciplined execution, I have grown even more confident about our ability to become an IP-driven, high-performing toy company and create long-term value for our shareholders. As shown by our fourth quarter results, we are making consistent progress towards advancing our strategy to restore profitability and regain top-line growth in the short-to-mid-term and are laying the groundwork to capture the full value of our IP in the mid-to-long-term.

Among all the achievements in 2018, I would like to applaud our team for regaining the #1 toy company position globally, in a year full of challenges and headwinds. This is a great moment to celebrate, before we go back and continue the hard work of implementing a multi-year turnaround. I look forward to seeing many of you next week at Toy Fair and sharing additional details on our roadmap going forward.

I will now turn the call over to Joe to walk through our fourth quarter and full year financial results in more detail. Thank you.

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

Thank you, Ynon and good afternoon everyone. Today, I'll begin by walking you through our financial results. Then I'll provide an update on our strategic investments and our continued progress toward Structural Simplification.

Our fourth quarter demonstrated our ability to consistently execute on a quarter-by-quarter basis. We had strong results in both the fourth quarter and the full year. Our full year results exceeded expectation on both the top and the bottom line.

Starting with the top-line, gross sales in the quarter were down 9% year-over-year in constant currency, driven by a negative 8% impact from Toys "R" Us, and a negative 2% impact from the slowdown in our China business. As expected, POS for Mattel was down similarly for the quarter as consumers transitioned from Toys "R" Us to other retailers. For the full year, gross sales exceeded expectations, declining 7% year-over-year in constant currency. We finished the year with retail inventory down mid-single digits globally year-over-year at our current customers and are well-positioned for 2019.

In the quarter, our adjusted gross margin was 46.6% of net sales, up from 32% in the fourth quarter of 2017. The significant improvement of 1,460 basis points was primarily driven by $114 million benefit from Structural Simplification initiatives, a favorable year-over-year comparison related to significant write-downs of excess owned inventory in Q4 2017, favorable brand mix and decreased sales adjustments driven by the timing of expense recognition, higher than expected fourth quarter sales, and improved trade spend management. These drivers were partially offset by a negative 350 basis point impact from inflation in the cost of raw materials and plant labor.

Adjusted gross margin for the full year of 40% of net sales exceeded expectations, and was up 230 basis points from 37.7% in 2017. The full year improvement was driven by the same items that drove the fourth quarter's improvement. Our full year advertising rate of 11.7% was consistent with the guidance we provided you on the third quarter call and benefited from Structural Simplification savings of $30 million.

In the fourth quarter, our reported SG&A was $394 million, which was $58 million or 13% better on a year-over-year basis. Our fourth quarter adjusted SG&A of $388 million was up $3 million or 1% compared to prior year. This year-over-year increase was primarily driven by incremental incentive compensation of approximately $70 million partially offset by the cost savings of $66 million from Structural Simplification.

Our full year adjusted SG&A of $1.4 billion was slightly better than prior year and consistent with the guidance we provided you in the third quarter. This year-over-year improvement was primarily driven by Structural Simplification savings of $165 million, partially offset by incremental incentive compensation of approximately $70 million and Toys "R" Us net bad debt expense of $32 million.

As Ynon mentioned, the year-over-year improvement of our reported operating income in the fourth quarter was the largest since 2009. Adjusted operating income in the quarter was $113 million, up $276 million compared to a loss of $163 million in the prior year. This stand out performance was driven by the $210 million of savings realized from Structural Simplification and gross margin improvement, partially offset by higher incentive compensation and inflation in the cost of raw materials and plant labor.

Our full year adjusted operating loss was $115 million, an improvement of $92 million compared to a loss of $207 million in the prior year. The year-over-year improvement was driven by the $372 million savings realized from Structural Simplification, partially offset by inflation and lower revenue.

Now let me give you an update on taxes. Our 2018 income tax expense was $41 million in the fourth quarter and $112 million for the full year, which was $11 million higher than the guidance we provided you on our third quarter earnings call as a result of higher sales and profit than previously forecasted. Our cash taxes paid, net of refunds, were $65 million. With regards to the Tax Act, in the fourth quarter, we adjusted our previously recorded provisional tax associated with the deemed repatriation of accumulated foreign earnings from $27 million to $4 million. Additionally, as a result of the Tax Act, we reevaluated and changed our indefinite reinvestment assertion on a portion of our foreign earnings to enhance our access to foreign earnings and recorded a tax expense of $15 million related to this change. As we stated in 2018, the 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 due to the full valuation allowance on our U.S. deferred tax assets which will also be true in 2019.

Moving to the balance sheet, we ended the year with a cash balance of $594 million. In 2018, our working capital improved year-over-year as a result of accounts receivable decreasing by $159 million or 14% year-over-year, driven by lower sales and improved collections. This improvement resulted in a six-day reduction in our days sales outstanding to 57 days. Additionally, owned inventory decreased by $58 million or 10% year-over-year as a result of our continued efforts to tightly manage our inventory.

Moving to the statement of cash flows, cash flows used for operating activities were $27 million in 2018, which was in-line with the prior year. Cash flows used for investing activities were $161 million, down 32% compared to the prior year. The primary driver of lower cash flows used for investing activities was capital expenditures.

Our capital expenditures were $152 million for the full year, down 49% year-over-year driven by our Structural Simplification initiatives, which included reductions in tooling and plant capital expenditures. This was better than the guidance we provided and was achieved without sacrificing the investments needed to advance our strategic initiatives.

Cash flows used for financing activities and other were approximately $297 million, which included a debt repayment of $250 million in the first quarter of 2018. We continue to actively manage our capital structure and are confident that we have sufficient liquidity to run our business efficiently. We have no debt maturities until October 2020.

In 2018, we remained committed to our investments in strategic initiatives spending $63 million, in-line with our guidance from the third quarter earnings which revised our original full-year guidance from $85 million to $60 million. This spend supported strategic initiatives related to our IT transformation, brand growth opportunities, as well as our international strategy. We plan to provide more visibility into our 2019 strategic investments next week at Toy Fair.

Now let me provide an update on our Structural Simplification cost savings program. As Ynon mentioned, we are on-track to exceed our $650 million targeted run rate exiting 2019. Exiting 2018, we already achieved $521 million of run rate cost savings and have four more quarters to go to complete our program. In 2018, we realized approximately $210 million of savings in the quarter, and full year savings of approximately $372 million. Our full year severance and restructuring costs related to Structural Simplification were $110 million. Please refer to Slide 19 in our accompanying slide presentation which provides further detail on our Structural Simplification savings to date.

Turning to 2019, we look forward to talking to you more about our expectations for 2019 at Toy Fair next week.

In closing, our key financial metrics, including gross margin, operating income and earnings per share are all moving in the right direction. This reflects the execution of our short-to-mid-term strategy which includes a focus on restoring profitability. With our cost savings ahead of schedule entering 2019, our cost structure is well-positioned to further improve profitability as we progress towards regaining top-line growth. Looking forward, we have ample opportunities to improve our financial performance across the board as our business strategy continues to gain traction in the marketplace. We look forward to seeing many of you next week at Toy Fair.

Thank you for your time today. We will now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Michael Ng with Goldman Sachs.

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

I have one for Joe and one for Ynon, if I could. Joe, I just wanted to better understand how much ahead of schedule on the cost savings you are? It seems like this $521 million run rate savings in the year was significantly better than I think, what was originally expected which was, I think the 40% of $650 million. Is that the right way to think about it? What went better than expected and also what inning are you in, in total cost savings do you think?

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

So the answer to that question is yes. It was supposed to be 40%. So yes, we are ahead of schedule. Look, there's still a lot more to do but we're very confident because we now are saying that we are going to exceed the $650 million.

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

Okay, great. Thanks. And then Ynon, I was just wondering if you can elaborate a little more on the content strategy. You're doing a lot of exciting things there. Are these content initiatives expected to be kind of profitable in and of themselves? What does success look like for you there?

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

Yes, sure. So what -- the fundamental advantage that we have is that we are the owner of one of the strongest portfolios of children and family entertainment franchises in the world. And the opportunities that we see are to extend our IP and franchises into highly accretive business areas in it of themselves. So we do expect incremental, transformative upside potential from these initiatives. And of course, at the same time, there will be a halo effect on the core toy business so we would expect to see uplift in the toy space as well.

Operator

Our next question comes from Arpine Kocharyan with UBS Investment Bank.

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

Could you give a little bit more detail on global POS for the quarter? I think the fact that Barbie and Hot Wheels were up might not be surprising, I think, in the channel. Both of those properties showed strength in the holiday season. But your shipment rate even in those products seemed to be a bit ahead of retail sell-through, which I think is at mid-single digit for Barbie and low single for Hot Wheels. I guess what could you say to eliminate any concern that there is inventory buildup even though we know that retail suffering for those franchises were stronger than the industry for sure for the quarter?

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

Yes, why don't I take that. I mean, we've worked really hard all year to start getting aligned in demand and supply. And our retail inventories are probably down mid-single digits as a result of that work. So I think that would be the answer to your question.

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

And in Q4, global POS altogether was down -- I'm sorry, I couldn't hear you, was down mid-single digits for the portfolio overall?

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

No, I said retail inventory was down mid-single digits. We worked hard to drive retail inventory down along with our own by mid-single digits. So we...

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

Right, right. And in terms of global POS for the quarter, could you quantify how much it was in terms of sell-through?

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

Well, global POS was down double digits.

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

Great. And I have a quick follow-up. It may be a question for Ynon. You put out several content-related updates over the past several weeks related to Barbie and Hot Wheels. But those announcements didn't have specific timelines and economics. And I understand why you wouldn't want to disclose some of that in terms of economics. But in terms of just general timing of when you are targeting some of those -- some of that content to comp, could you elaborate on that a little bit?

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

We haven't been specific because we -- it's too early to share with you the timeline. We did say that we expect to announce more initiatives in the near term. And I can say, and just to dispel a misperception that I read in a couple of places, is that while we are not looking to take financial risks, we do expect to have meaningful upside from these opportunities. And the reason is given the strength over the franchises, we are seeing very strong interest from some of the best and strongest partners in the industry to collaborate with us. And we, as a result, expect to generate meaningful return from Mattel notwithstanding the fact that we are not taking our own financial risk.

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

That's helpful. So outside of toy sales upside, you will participate in economics beyond royalty payout for your brand? In other words, you will share the economics with the studio at some point? Because that will be participating economically, right?

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

Correct. That's right.

Operator

Our next question comes from Ray Stochel with Consumer Edge Research.

Raymond Leonard Stochel ***Consumer Edge Research, LLC - Analyst of Interactive Entertainment***

I wanted to ask how you feel you are in terms of your inventory position when comparing new retailers or new doors that you opened relative to older doors? And then if you could give a metric as to what percent of your sales this year came from new doors in either the U.S. or globally. And also, I'd love an update on SKU count year-over-year.

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

Right. So we typically don't give out the retailer-by-retailer information. In regards to inventory, we -- I just said that we were down mid-single digits at our retail store level. In regards to new accounts, obviously, we stayed focused in making sure that demand drove supply to make sure they had adequate inventory. I think the execution demonstrated how we were.

Operator

Our next question comes from Felicia Hendrix with Barclays.

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

So Joe, just a balance sheet one for you first. The cash burn that you had for the year was roughly in-line, give or take, with what we were expecting. And in your prepared remarks, you kind of laid out some of the drivers of that. For 2019, we're modeling moderate free cash flow generation. And I'm just wondering, if that matches with your plans or could 2019 be another year of cash burn?

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

So for '19, we are going to be at Toy Fair next week and we will give you all of the plans we have for 2019.

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

Not just a little piece now?

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

No, although we want to give you a wholesome picture so that nothing could be taken out of context.

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

Okay. And then -- okay, I'm kind of reassessing here. Because I think I might ask you a bunch of things where you're going to say the same answer. But when I look at -- when we kind of look at the successes that you guys have had thus far, maybe in Barbie and Hot Wheels, and you guys have talked about the initiatives that you're looking at to drive the other lines. But as we -- and you've made it clear what's happening with American Girl. But with Fisher-Price and Thomas, could that grow in 2019?

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

Yes, it's Richard. I mean, obviously, we are going to share a lot more with you at Toy Fair when we get to New York, and we're very confident about our programs in place. Fisher-Price as you know, single largest Infant, Preschool brand in the world. A lot of great progress that we're making there. And there's specific focus in 2019, improving price value, reinforcing the digital dialogue with millennial moms. We are working on presenting to you in 2019, you'll see some great new innovation and new products and segments and we're very confident in the brand and certainly it's staying power and future growth. Thomas as well. Thomas is an incredible brand, almost 75 years rich of heritage. It's a multi-generation franchise for us: theme parks, programs, live events, products, consumer products. It is a really important brand and we are taking a holistic approach to it. From a consumer perspective, we're going to be spending a lot of time on our retail presence and merchandising assortments. And again, we'll share a lot more with you on our products and programs when we get to New York.

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

Okay. And there might be one more of that, we had to wait until next week. But just wondering I think it will be helpful for a lot of people on the call just to give us some color or bring us up to speed in terms of where you are in terms of transitioning to the manufacturing asset light phase. Is that something you can update us on now?

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

As I said in the prepared remarks, we are proceeding towards a capital-light model. We have several scenarios that we are evaluating. And we expect that whatever benefit we would generate from this strategy will be incremental to the Structural Simplification program on top of the target of $650 million that we also, as you know, by now expect to exceed.

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

Okay, but there's no more detail that you can give us on what you're -- on how you're progressing with that?

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

Not at this stage.

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

All right. I really look forward to asking more questions next week.

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***

Maybe I'll just follow on Felicia's question there with the exiting the manufacturing timeline. So whoever wants to take this, would you say that by 2021, is that fair that you should be basically purely an asset-light organization?

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

We don't want to give specific timelines, but there's clearly an opportunity. As you understand, we, today, have 13 manufacturing plants. We employ tens of thousands of people. It's fair to say that these plants are actually doing a great job. These are great factories. But there's no question that we can achieve significant benefits if we adapt our model to the new economy and leverage other options that we have.

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

Okay. And then, gentlemen, again, to what degree you'll answer we'll see early next week. But just a broader timeframe of Fisher-Price, American Girl stabilization and then collectively then, how does that fold into, I think, you said in -- a year ago, an intermediate goal of re-achieving a mid-teens margin?

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

It's Richard. I think we've talked about Fisher-Price clearly and we will share a lot more of our growth strategies moving forward, which we're very confident in. On American Girl, this is another one of our premium brands. It has a long-standing, again, generational franchise with an incredible fan base. And I would mention, like Barbie, another big generational brand that's weathered cycles over time. And we really believe that American Girl has the ability to make a very strong comeback. That being said, we have said that it's going to take a multi-year approach to implement the changes that need to be made. We have been restoring the brand's premium position, which I will again share with you some of those details when we get to New York. But this includes revitalizing brand experiences in our store, a digital flagship approach online and certainly, the content and experiences in storytelling that girls and moms love about the American Girl franchise. These are really important aspects that we're continuing to work hard on. And we do believe in the franchise long-term. And again, we will share more detail with you in New York.

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

Okay. And then that mid-teens margin goal? Just any update there, gentlemen?

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

We haven't come off our goal to achieve mid-teens. I mean, that's still something we believe we can get back to. So yes, that hasn't changed.

Operator

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

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

First question, DC license. Can we hear your side of story there? Did you not want to re-sign it? Did Spin Master outbid you? What happened there?

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

Well, we can't get into specifics, but I can tell you that we do have DC license, as you know, to 2019. And actually, we have Wonder Woman through 2020. And we do expect to continue to be in partnership with Warner Bros. going forward. As you noted, we are also already in business with them with two big film franchises and that should give you a reference to the strength of the relationship between us.

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

Okay. And now on the cost savings, the $521 million run rate, are there any cost saves you'd actually like to have back, perhaps certain people or positions where you may not have appreciated their value until they're gone?

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

Look, I'll give you an answer, but it's taking a bigger picture which is when we've developed our Structural Simplification program, we did it from the ground up. This was not a mandate from the top to reduce the organization by x percent. This was designed together with leaders across the world, across the entire organization to define and optimize our structure, to simplify the organization, to remove layers that were unnecessary and to improve efficiency and performance. So I can't tell you that we've got everything perfect. But we're very happy with where we sit and believe that we can achieve more savings and efficiencies all the way through the end of 2019.

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

Great. And one more if I can. So retail has shifted their fulfillment practices, putting more pressure on you guys and vendors to hold more inventory to ship just in time. How do you think you performed there? Did you have enough inventory in place? Did you leave any sales on the table? Do you think you maximized yourselves in the fourth quarter?

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

Yes, I think, first and foremost, I mean, we really worked hard to make sure that demand was driving supply. By not having TRU and having retailers that hold less inventory, it required us to get our supply chain in place to have more inventory turns. And if you recall, we put in the Pennsylvania distribution facility that we had up and running in the back half of the year that actually contributed to the positive margin and it executed well. So yes, I think we did really well in this fourth quarter. Did we leave some sales on the table? I don't think there's a quarter that goes by that you don't leave some sales for some reason so -- but did we optimize the fourth quarter? I think our execution demonstrated that.

Operator

Our next question comes from Greg Badishkanian with Citi.

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

You have mentioned that retail inventory levels were down mid-single digit globally. So I'm just wondering how that will impact restocking at the retail level as well as the markdown money on a year-over-year basis in the first quarter?

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

We don't anticipate any issues in regards to the first quarter. We've been very connected with our retailers and making sure that we got the right inventory in there, they're spinning the right way. So you saw our obsolescence was down obviously dramatically but even more than a typical year. So I think we are in pretty good shape starting off 2019.

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

So on a year-over-year basis, I'm assuming that it's going to be more favorable than it is actually going to be a tailwind for you, right?

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

Yes, I mean, look, I don't think it's material, I guess, is how I would look at it.

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

Okay, all right. And just how do you think retailers will approach the toy category in 2019 versus how they did in 2018? Some of the mistakes they made and what you think they're going to do differently?

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

I mean, from my perspective, I think, look, the loss of TRU was all about having a plan to gain market share from the lack of TRU. And I think we worked with them very effectively in doing that. I think we exited the year with great shelf space. And any game plan you're executing to as you go through, you can always turn the screw one way or the other to refine your process and execution and we'll make those things as we go through the quarters ahead.

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

And I would add that toys is a strategic category for many retailers. This is not just another product that they sell from the aisles. It drives traffic, engagement and obviously, it is a product that have emotional connections with their consumers. So the toy industry is in a good place. We talked about the different research that we see that are projecting continued growth through 2022. Solid growth. The latest research that we are looking at is the Euromonitor Research that studied 32 markets that represent about 80% of the industry. And they're talking about 4.7% CAGR through 2022. We see demand. We see retailers leaning in. We are seeing consumers looking to continue to be entertained, inspire and play with our product. So we remain very positive about our relationship and collaboration with the different retailers to step in and optimize for the result.

Operator

Our next question comes from Eric Handler with MKM Partners.

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

Wonder if we could talk a little bit more about Fisher-Price. And this is a segment that's been in perpetual turnaround for a number of years now. But when you look at where you are, maybe you could talk about, since there's so many different businesses within Fisher-Price, maybe what are the 3 areas where you're most optimistic right now? Where are the troubled areas? And also, maybe you could talk a little bit about Thomas? Originally, when this was acquired from HIT, there was tremendous optimism, and this was the crown jewel within HIT Entertainment and it seems like the business has tapered off in the last couple of years. What's functionally changed with Thomas and what sort of needs to happen to get it back on an upward trend?

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

So I'll start and my friends here can chime in as they see fit. There's an important part of the Fisher-Price narrative this year that of note, the brand was heavily impacted in 2018 by Toys "R" Us. The disruption, of course, Babies "R" Us and as we mentioned, the challenges that we've had in China. So it clearly has exasperated the results that you're seeing. The price value equation of the brand has been one that we've been working on for some time. And there have been some mechanical changes this year that have been attempted that have proven effective and we will continue to learn as we go through our tests and some of the execution that we have planned for 2019 should start some of the momentum that we've seen in some of these tests for '18. There's also the reality of the millennial mom and the demand creation model which we've been practicing more of and testing and learning. As I mentioned, the digital dialogue that we've been having and investing more in demand creation through digital platforms for Fisher-Price will increase for 2019 and beyond. And as well, least of which is innovation. The value proposition also must have an important innovative component from a product. And again, as we look forward to seeing you at our galleries in New York, there's some specific new segments that we are going to be introducing that answer consumer insights, trends and innovation. So as you watch this space again, despite the fact that we've obviously been experiencing challenge with the Fisher-Price brand, we do remain the #1 in the category. The category is an incredibly important category for the industry. Preschool, Infant, Toddler is the #1 category in this space. And we do see opportunities for growth across the board, in particular, in the preschool space. So as we share more with you in New York, hopefully we'll get more details for you that will give you the confidence that we have in the franchise. As it relates to Thomas -- sorry, question?

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

No, no. You go ahead.

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

Okay. So on the Thomas front, as you know, we were slow to reinvent, if you will, or revitalize some of the content. The new content is resonating in international markets, especially in the U.K. In the U.S., there's been a bit of a longer than expected release timeframe for the new content and it has had a result in limited incremental exposure. We're taking a really fresh look at Thomas from a holistic consumer perspective. Content is incredibly important and is part of the heritage of the brand. But consumer product is also a very important component as well, live events. And also as part of that is innovation within the toy line. So all of which is being looked at significantly. And again, not punting every question to New York, but we will have more to share with you in New York. As I mentioned on one previous question earlier, we're working on strengthening our retail presence and merchandising assortment. If you go into a lot of the various different locations where Thomas is featured, the consumer is buying into Thomas and the depth of purchase of the characters. And what we are concentrating on is making sure that the assortment is there to meet the demand. We've got a really strong fan base and great relationships around the world with consumers on this brand and we are going to be sharing a lot more of what we believe are the mechanics to turn it around in New York.

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

Great. Just one quick one for Joe, since you brought up China. You had a big inventory overhang there. Where does that stand now?

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

So we're a good way through. Fourth quarter was very helpful. We will still have some to get through in the first half of the year, but feel very good about the position we're in right now.

Operator

Our next question comes from Jamie Katz with MorningStar.

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

I am curious about The Toy Box. Obviously, there are ongoing declines in there and MEGA was called out as a brand that continues to struggle. Could you give us any insight as to where you guys sort of see that stabilizing and how you feel about MEGA at this point in time? It was a very promising business at the time of acquisition.

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

MEGA remains a strong #2 challenger brand with enormous opportunities ahead of it. We love the construction space. It's a great category and MEGA is a strong challenger brand. We do have exciting new products and propositions for the brand in 2019. And one that we're incredibly excited about is the fantastic partnership that we have with Pokémon. As you know, the Pikachu movie is coming out in the first half of 2019 and we believe there will be great excitement over our product line and assortment related to that partnership. We've got some other new items that we're going to be sharing with you at Toy Fair and some specific retail programs, driving a challenger mindset with the MEGA brand. And we believe really strongly in the category. We think it has tremendous upside potential for us and it represents a great opportunity for us for growth around the world.

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

Okay. And then any insight into sort of when may be the growth would start to level out there in The Toy Box?

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

The question was?

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

When will The Toy Box start leveling out, getting...

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

Okay, I think on that, again, we will have to share with the overall strategy related to how we're approaching the categories. And within The Toy Box, how we are driving growth, both in our partnerships business and across the specific categories that we manage.

Operator

Ladies and gentlemen, thank you for participating in today's question-and-answer session. I would now like to turn the call back over to Ms. Whitney Steininger for any closing remarks.

Whitney Steininger ***Mattel, Inc. - Manager of IR***

Thank you, operator, 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 6689495. Thank you for participating in today's call.

Operator

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