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MAT.OQ - Q1 2023 Mattel Inc Earnings Call

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PRESENTATION

Operator

Good afternoon. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mattel, Inc. First Quarter 2023 Earnings Conference Call. (Operator Instructions)

Thank you. Mr. David Zbojniewicz, Vice President of Investor Relations, you may begin your conference.

David Zbojniewicz - *Mattel, Inc. - Vice-President 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 Anthony DiSilvestro, Mattel's Chief Financial Officer.

As you know, this afternoon, we reported Mattel's 2023 first quarter financial results. We will begin today's call with Ynon and Anthony providing commentary on our results, after which we will provide some time for Ynon, Richard and Anthony to take questions. To supplement our discussion today, we have provided you with a slide presentation.

Our discussion, slide presentation and earnings release may reference non-GAAP financial measures, including adjusted gross profit and adjusted gross margin, adjusted other selling and administrative expenses, adjusted operating income or loss and adjusted operating income or loss margin, adjusted earnings per share, adjusted tax rate, earnings before interest, taxes, depreciation and amortization or EBITDA, adjusted EBITDA, free cash flow, free cash flow conversion, leverage ratio, net debt and constant currency.

In addition, we present changes in gross billings, a key performance indicator. Please note that we may refer to gross billings as billings in our presentation and that gross billings figures referenced on this call will be stated in constant currency unless stated otherwise. For today's presentation, references to POS and consumer demand exclude the impact related to our Russia business, given our decision to pause all shipments into Russia in 2022.

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Our slide presentation can be viewed in sync with today's call when you access it through the Investors section of our corporate website, corporate.mattel.com. The information required by Regulation G regarding non-GAAP financial measures as well as information regarding our key performance indicator is included in our earnings release and slide presentation, and both documents are also available in the Investors section of our corporate website.

The preliminary financial results included in the press release and slide presentation represent the most current information available to management. The company's actual results when disclosed in its Form 10-Q may differ from these preliminary results as a result of the completion of the company's financial closing procedures, final adjustments, completion of the review by the company's independent registered public accounting firm and other developments that may arise between now and the disclosure of the final results.

Before we begin, I'd like to caution you that certain statements made during the call are forward-looking, including statements related to the future performance of our business, brands, categories and product lines. Any statements we make about the future are, by their nature, uncertain. These statements are based on currently available information and assumptions, and they are subject to a number of significant risks and uncertainties that could cause our actual results to differ from those projected in the forward-looking statements.

We describe some of these uncertainties in the Risk Factors section of our 2022 annual report on Form 10-K, our earnings release and presentation and other filings we make with the SEC from time to time as well as in other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so, except as required by law.

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

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

Thank you for joining our first quarter 2023 earnings call. As anticipated, our first quarter results were negatively impacted by elevated retail inventory levels. That said, the underlying business performed well, both in absolute and relative terms, with overall growth in consumer demand for our product and market share gains for Mattel.

Looking at key financial metrics for the first quarter as compared to last year. Net sales declined 22% as reported or 21% in constant currency, and adjusted EBITDA declined $166 million to a negative $14 million. Our first quarter decline was primarily due to the negative impact from retailers managing inventory levels, which were elevated entering the year and also due to the comparison to the year-ago quarter, which benefited from retailers building earlier in the season.

Excluding Russia for comparability, total company POS was up mid-single digits with double-digit growth in our International segment and flat POS in North America. Per Circana, formerly known as the NPD Group, Mattel gained share globally in our 3 leader categories as well as in action figures and building sets. This broad-based market share gains speak to the strength of our portfolio. We believe retailers will continue to adjust inventories in the second quarter, negatively impacting gross billings and that the situation will be corrected by the end of the first half.

Reflecting our strong financial position and confidence in our strategy, we resumed share repurchases in the quarter and look to make further repurchases this year. The fundamentals of our business are strong. We expect to outpace the industry, gain market share and achieve our full year guidance.

Looking at gross billings in the quarter. All categories declined as a result of retailers managing elevated inventory levels with the exception of vehicles, which was up. With respect to the Power Brands, Barbie and Fisher-Price declined while Hot Wheels grew. The global rollout of Monster High and the launch of our Disney Princess and Frozen products are both off to a good start. POS significantly outpaced gross billings by double digits in all categories and all power brands.

We have been successfully executing our strategy to grow Mattel's IP-driven toy business and expand our entertainment offering. On the toy side of the company, we recently announced a new and separate licensing agreement for Disney's Wish releasing in November of this year, the relaunch

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of Barney and our first-ever licensing agreement with Hasbro to create co-branded toys and games, and we launched last weekend a new line of Disney, the Little Mermaid dolls as part of our Disney license agreement ahead of the upcoming theatrical release.

We also made progress in capturing value for our IP outside the toy aisle and recently announced the Hot Wheels Ultimate Challenge primetime show on NBC and the Barbie Dreamhouse Challenge, a new home makeover competition series on HGTV, both airing this summer, the Hot Wheels Rift Rally mixed reality racing game on PlayStation and iOS and new Monster High live tour, the launch of our own publishing business and a new multiyear apparel and accessories partnership with GAP.

Excitement continues to build for the Barbie movie, one of the most anticipated films of the year, which premiers worldwide on July 21. The second teaser was released earlier this month with significant global coverage. Expect more momentum in social media and marketing activities to accelerate towards the release of the movie.

In closing, while retail inventory management impacted the first quarter results, the underlying business continued to perform well, with overall positive consumer demand for our product and growth in market share. We believe the retail inventory situation will be corrected by the end of the first half and anticipate a return to shipping patterns more aligned with historical trends in the second half.

Overall, consumer demand for our product is off to a good start, and we expect to achieve our full year guidance. Our balance sheet is in a strong position and provides the flexibility to support growth. We are well positioned to continue executing our multiyear strategy and create long-term shareholder value.

And now I will turn the call over to Anthony.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Thanks, Ynon. As Ynon said, our first quarter results were negatively impacted by movements in retail inventory levels. The first quarter's decline was primarily due to the negative impact from retailers managing inventory levels, which were elevated entering the year, and also due to the comparison to the year-ago quarter which benefited from retailers building earlier in the season.

First quarter results were slightly ahead of the outlook we provided in mid-March, driven by the favorable timing of shipments at quarter end. Net sales of $815 million declined 22% or 21% in constant currency compared to the prior year. However, we saw positive POS performance in both absolute and relative terms, which grew mid-single digits in the quarter and significantly outpaced gross billings. Mattel outperformed the industry and gained market share. As a reminder, POS and consumer demand exclude the impact related to our Russia business.

Adjusted gross margin declined 660 basis points to 40% due to several factors, including inventory management costs and the negative scale impact associated with the sales decline. Adjusted operating income declined by $177 million to a negative $87 million, primarily due to the lower sales and lower adjusted gross margin.

Adjusted EPS was a negative $0.24 compared to a positive $0.08 a year ago, and adjusted EBITDA declined by $166 million to a negative $14 million. We expect consumer demand to be positive for the full year and revenue comparisons to improve through the year as shipping patterns revert to historical trends in the second half.

Turning to gross billings in constant currency. Performance across categories was primarily impacted by movements in retailer inventory levels that had an outsized impact on a seasonally small quarter. While gross billings declined 21%, including a negative 3-point impact from Russia, there was overall positive consumer demand for our products as POS increased mid-single digits.

Dolls declined 22%, primarily due to declines in Barbie, partly offset by growth in Monster High and Disney Princess and Frozen. POS for dolls increased low single digits. Barbie POS was down high single digits, but significantly better than shipping, which declined 40%. POS and shipping for Barbie were also impacted by the shift of promotions into Q2 and to better align with the theatrical release of the movie. Mattel gained over 350 basis points of market share in the dolls category in Q1, and Barbie was the #1 doll property globally per Circana.

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Vehicles grew 1% with POS up low double digits. Growth was primarily driven by Hot Wheels die-cast vehicles. Mattel gained over 530 basis points of market share in the vehicles category, achieving the highest Q1 market share on record per Circana. Infant, toddler and preschool declined 26%, while POS was down low double digits. POS declines in baby gear, as we optimize the offering, were partly offset by growth in Little People and Imaginext.

Mattel was the #1 toy company globally in the infant, toddler and preschool category and gained 60 basis points of market share in the quarter per Circana. Challenger categories in aggregate declined 38% primarily due to lower sales and action figures as we lap the theatrical tie-ins in the prior year. POS was up low double digits.

With respect to regional performance, North America declined 27%, reflecting the retail inventory headwinds. POS was flat compared to last year. Per Circana, Mattel gained market share in North America in Q1. EMEA declined 24%, including a negative 12-point impact from Russia and also reflecting the retail inventory headwinds. POS increased double digits. Latin America grew 1%. POS increased double digits. Per Circana, Mattel gained market share in Latin America in Q1, extending our #1 market position. Asia Pacific increased 17%, driven by growth in all key markets. POS declined mid-single digits, primarily due to China.

As previously noted, Retail inventory levels at year-end were above the prior year and elevated heading into 2023. This position improved in the first quarter with levels ending slightly below the prior year in both dollars and weeks of supply, while improved quarter end retail inventories remain slightly elevated, which is expected to negatively impact our second quarter gross billings as retailers continue to adjust their position.

Adjusted gross margin declined 660 basis points to 40% in the quarter. The decline was due to several factors; inventory management, primarily closed out sales and obsolescence of 420 basis points, cost inflation of 210 basis points, fixed cost absorption of 140 basis points associated with lower volume, and mix and other factors of 140 basis points. These negative factors were partly offset by price increases, primarily the carryover benefit from 2022 actions, which contributed 120 basis points and savings from the Optimizing for Growth program which had a positive impact of 120 basis points.

Moving down the P&L. Advertising expenses increased 3% to $76 million, supporting POS growth in the quarter. Adjusted SG&A increased 5% to $336 million, primarily due to market-related pay increases, partly offset by savings from the Optimizing for Growth program. Adjusted operating income was a negative $87 million compared to a positive $90 million a year ago. The decline was due to lower sales and lower adjusted gross margin. Adjusted EBITDA declined by $166 million to a negative $14 million, impacted by the same factors.

Cash from operations was a use of $206 million, reflecting the seasonality of the business compared to a use of $144 million in the prior year. The increase in use of cash was due to lower net earnings, partly offset by reduced working capital requirements. Capital expenditures were $43 million compared to $36 million a year ago, and free cash flow was a use of $249 million compared to a use of $180 million in the first quarter of 2022. On a trailing 12-month basis, we generated $187 million in free cash flow compared to $226 million in the prior year. The decline was primarily due to capital expenditures, which increased $42 million to $193 million.

With positive free cash flow, a strong financial position and confidence in our outlook, we have resumed share repurchases. In the first quarter, we repurchased $34 million of our shares and look to continue repurchases in 2023.

Taking a look at the balance sheet. We finished the quarter with a cash balance of $462 million compared to $537 million in the prior year. The decline reflects the use of cash to reduce debt and repurchase shares, mostly offset by free cash flow generated over the trailing 12 months. Total debt declined to $2.327 billion from $2.572 billion last year reflecting the repayment of $250 million of debt in the fourth quarter of last year. Accounts receivable declined by $188 million to $674 million in line with the decline in sales. Inventory was $961 million, slightly down from the prior year of $969 million as we have continued to achieve sequential improvements in year-over-year levels.

Looking ahead, we believe we are well positioned to achieve inventory reductions in 2023, which will contribute to free cash flow generation. Leverage ratio increased to 2.9x at the end of the first quarter compared to 2.4x a year ago. The increase is primarily due to the timing of our quarterly results. We expect to end 2023 with a leverage ratio of approximately 2.5x.

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We generated $21 million of savings in the quarter as we continue to execute the Optimizing for Growth program launched in 2021. As previously announced, we raised our program savings goal to $300 million by 2023, and we are confident that we will achieve that target. We expect incremental savings of $96 million in 2023. We now expect total estimated cash expenditures to implement the program to be $155 million to $185 million, a slight increase from our prior estimate.

We are reiterating our full year 2023 guidance, consistent with our February investor presentation. This includes our expectation for net sales to be comparable to last year in constant currency, adjusted EPS in the range of $1.10 to $1.20, adjusted EBITDA of $900 million to $950 million, and for free cash flow to exceed $400 million.

In terms of phasing, we expect gross billings in the second quarter to be negatively impacted by retailers continuing to manage their inventory and for shipments in the second half to revert to historical trends. This will result in an accelerated growth rate, particularly in Q4 as we wrap an atypical inventory decline in the prior year.

We are operating in a challenging macroeconomic environment with higher volatility that may impact consumer demand. The guidance considers what the company is aware of today, but remains subject to further market volatility, any unexpected disruption and other macroeconomic risks and uncertainties. In closing, we are off to a good start, with overall growth in consumer demand for our product and market share gains, and believe we are well positioned to achieve our full year guidance.

And now I will turn it over to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Drew Crum from Stifel.

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

So Anthony, I think earlier in the year, you suggested that working through excess of retail inventory would shave 3 to 4 points of growth from sales this year. How is the business tracking to that target? How much of that was recognized or absorbed during 1Q and what remains? And then I have a follow-up.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Okay. We are generally on track with respect to retail inventory reduction and believe the situation will be corrected by the end of the first half. And just for more context, as we said on our fourth quarter call, retail inventory levels at year-end were above prior year and elevated as we headed into 2023. That position improved in Q1, and we ended Q1 with levels slightly below the prior year. That's both in dollars and weeks of supply, right? But they're still a little bit elevated, and we believe retailers will continue to adjust inventories in the second quarter and that, that situation will be corrected by the end of the first half.

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

And then maybe for Ynon, Richard. I know you guys are only 1 quarter in, but can you comment on the allocation of shelf space for your existing legacy doll brands now that you've launched or relaunched rather Monster High and you've added back Disney Princess and Frozen. Are you finding that there's cannibalization or that everything can coexist together?

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

Yes, I'll start. First of all, our space allocation, we're generally flat in comparison. But our category management structure allows each one of our brands to have a really unique reason for being. We talked a lot about it in the context of the differentiation on each one of our brands. And the brands themselves within portfolio, particularly in the doll categories, you've mentioned, have held up well. Barbie POS held up very well in a very competitive category, which has seen a significant amount of discounting from competitors.

But overall, just to simply answer the question in terms of space, we feel very confident as we move into the back half. And certainly, our doll portfolio is the strongest in the industry and arguably in the history of Mattel. As I've said often, this is the year of the doll.

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

And Drew, just to add a comment, the flat is on a like-for-like basis, but we did -- we do obviously have more capacity for Monster High and Disney Princess. So there was no cannibalization between these brands and what we already have in the system.

Operator

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

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

This is Arpine. I was wondering if you could share maybe what demand patterns you're seeing globally into April. And I was wondering if your POS is actually adjusted for Easter, the up mid-single digit that you reported because we started to sell a little bit earlier this year versus last year? And then I have a quick follow-up.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Arpine, I think the best way to think about POS into April, obviously, we're up in Q1. And when you look at year-to-date, including early April, we are also positive, right? So I think that's the best way to look at it.

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

Perfect. That's very helpful. And earlier in the year, I think you had said that net sales cadence could return to that 30%, 35% in the first half and then 65%, 70% in the second half. Is that still the expectation? Does that still hold? If so, that would still imply Q2, down about maybe 18%, 20%. Are you -- am I thinking about it the right way and then the back half up mid-teens or something?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Yes, very much so. If you look at the decade leading into 2021, on average, we do about 1/3 in the first half and 2/3 in the second half. And the anomaly was really in 2022, where we did 42% in the first half and 58% in the second half. And we're wrapping that, and that's what's causing this first half, second half growth variances.

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

Okay. And then I apologize for a third question, but I'm hoping you could shed some light on this because I think there's a lot of sort of opinions out there. Kind of if you could give us some color on consumer product mix at retail for each of your power brands and particularly for Barbie.

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Obviously, you're making a big push here with the film coming up. How should we think about the economics of that, maybe in terms of participating in consumer products outside of the toy aisle, kind of royalty rate?

Anything you could share? I'm sure you can, maybe might not be able to share a royalty rate that you earn on those third-party revenues. But anything you could give to help us think about these opportunities that you'll be announcing. An example was obviously GAP that you just announced recently.

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

First off, 2023, in particular, is going to be a legacy making year, particularly on the Barbie brand. As we have all seen the first-ever live-action film has got an incredible cultural conversation. From there, it's a catalyst to also drive meaningful extensions of the brand outside of the toy aisle, as we've shared. We've accelerated our presence in scripted and unscripted television. We have live experiences now that are taking place all over the world. Mobile gaming has also expanded, digital collectibles and, of course, as you mentioned, consumer product partnerships.

We've shared some of the consumer product partnerships recently, but you're going to be hearing a lot more in the coming weeks around significant and meaningful partnerships outside of the toy aisle. It really is a catalyst for us to extend the investment thesis of unlocking the value of our IP. And movie and content and digital gaming and extensions really give us the opportunity to broaden our reach, drive revenue, monetize the brand as a franchise, and you'll be hearing much more about the impact of that in the future.

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

In terms of accretion, these are all margin-accretive opportunities. So CP, all the licensing opportunities that Richard mentioned are all margin accretive.

Operator

Your next question comes from the line of Eric Handler from ROTH MKM.

Eric Owen Handler - *ROTH MKM Partners, LLC, Research Division - MD*

Two questions. First, as we look at the expected cadence for the year, and Anthony, I appreciate what you've given so far, but as you look at the back half, some years 3Q was larger than 4Q, some years 4Q was larger than 3Q. I know we're looking for a big sort of hockey stick growth in the fourth quarter, but directionally which of those quarters do you expect to be bigger?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

I think a couple of points. First, to start with the year ago comps certainly eased as we progress through the year, right, and that's more so for Q4 than Q3. And as we said, we do expect shipments in the second half to revert to historical patterns, that is 2/3 in the back half. And what you'll see is an accelerated growth rate in gross billings, particularly in Q4 as we wrap an atypical seasonal shipping in the prior year, right? And I think it's important to note that, that accelerated growth rate in gross billings is not dependent on accelerated POS growth because even if you assume stable POS, you'll get a double-digit increase in gross billings in Q4 by simply returning to those historical patterns.

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Eric Owen Handler - *ROTH MKM Partners, LLC, Research Division - MD*

Okay. I'll follow-up again to that. But one for Richard. I feel like every quarter, I'm asking about how Hot Wheels remain so strong. When you look at the growth that you've seen in Hot Wheels, is it a function of you've got really good low price items for this retail environment or is it the product extensions that you've had? Is there anything you could sort of point to that, I guess, why Hot Wheels just continues to perform so well?

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

Well, thanks for the question. There really is kind of an all-encompassing strategy in Hot Wheels that follows the Mattel playbook. Truthfully, it's been driven by innovation, specifically incredible innovation product across the brand, cultural relevance, which continues to be a really important part of the brand's narrative. And we're seeing the results of it. I mean, the growth is primarily driven by die-cast vehicles. We gained over 530 basis points of market share in the vehicles category.

And obviously, that's been led by the power of Hot Wheels. We're in our fifth consecutive biggest year ever heading to our sixth consecutive record year. We also continue to expand the distribution of our core diecast vehicles aggressively, we've been targeting both kids and adult collectors, which is primarily a growth engine within the brand itself. And as I mentioned, innovation is core to the Hot Wheels growth strategy. We've launched 2 specific segments last year in 2022.

Hot Wheels RC and Hot Wheels Skate both have been successful entries and gaining momentum. We're going to be expanding into even more additional play patterns this fall. So look, all in all, between our demand creation that's very effective innovation that's driving new segmentation and great excitement and cultural relevance. We can't be more excited about the growth ahead for the Hot Wheels brand.

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

And Eric, just to remind you that we also have 2 movies in development, 1 for Hot Wheels with J.J. Abrams to produce at Warner Bros and Matchbox with Skydance, the producer of Top Gun and the Mission Impossible series. So expect more in this category, as Richard said, a very exciting space for us.

Operator

Your next question comes from the line of Gerrick Johnson from BMO Capital Markets.

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

Anthony, sort of a technical question on the clearing of retail inventories. Where does that hit? I would have thought to sales allowances, but those looked pretty much flattish. So what is it that impacts gross margin to bring it down 420 basis points accounting wise?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Sure, Gerrick. I mean, you're right, our Q1 sales adjustments were fairly comparable to the prior year. Where we're seeing the impact on our gross margin is through closeout sales as well as obsolescence, neither of which go through sales adjustment, but obviously impact our gross margin.

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

Okay. And maybe for Richard or Steve. The POS growth, there's 2 ways to interpret that, either a strength or as an area where you're seeing more closeouts. So I understand we're seeing strength in Hot Wheels. But where are some other areas where that POS is strength and where are some areas where that POS is just clearing a lot of closeouts?

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

Overall, consumer demand for our product was positive, both in the first quarter and year-to-date, including early April. The expectation as we move forward is that, that will only accelerate in the context of our products and programs and certainly, as we enter into the second half. As we've said, we're reiterating our full year guidance, and we expect certainly gross billings in the second quarter to continue to be negatively impacted by the retailers continuing their inventory and retail inventory situations. But that will be course corrected by the end of the first half. And with continued POS momentum, we'll start to see some great results in the back half.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

And just to add to Richard's point, when we look at consumer takeaway, we are not seeing, in aggregate, any significant increase in the level of discounting overall. Obviously, that could vary by category. But when we look at fixed dollars or scan dollars, the aggregate change is relatively consistent.

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

Okay. Well, maybe let me add more. In action figures, building sets, games and other, what drove that POS growth?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

A lot of that was driven by action figures, primarily Jurassic World.

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

I was going to say as we sort of look at the challenger categories, in particular, construction with Mega has been led by Pokemon and the extensions that we've driven into that category with Hot Wheels and Barbie continues to gain momentum as well. But Anthony kind of reiterated the action figure comment.

Operator

Your next question comes from the line of Linda Bolton-Weiser from D.A. Davidson.

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

I was curious why you think the international POS growth was so much higher than in the U.S. And then secondly, sorry if I missed this, but did you say something about shipments being particularly strong towards the end of the quarter? Because I know Anthony, that you said something about revenue decline being even higher than it ended up being like earlier in March at the conference. So was it that the last 2 weeks of March were really strong in terms of shipments.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Yes. So I'll start with the second part of the question. Relative to the expectations we provided in March, right, our supply chain performed very well. We were able to fulfill incremental shipments at the end of the quarter. And it's really just a shift between Q1 and Q2. It doesn't impact our full year outlook in terms of sales.

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In terms of the other part of your question, when we look across our regions, I think the question is around POS. And EMEA had a strong POS, they were up low double digits. Latin America was also up low double digits, while North America was flat. But I think in terms of North America, it's important to recognize that we actually outpaced the industry and gained share.

Operator

Your next question comes from the line of Stephen Laszczyk from Goldman Sachs.

Stephen Neild Laszczyk - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Maybe for Anthony. Could you remind us maybe to what degree fixed cost absorption is expected to be a headwind this year? And to what degree that could be an opportunity as business patterns normalize, both in the back half of this year and into 2024?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Yes. Let me answer that in the context of the full year gross margin outlook. We expect gross margin to improve to 47% compared to 45.9% last year. And the key drivers for that on the positive side, pricing, that's primarily the carryover impact of 2022 actions as well as cost savings. We've increased our target under our Optimizing for Growth program. And those 2 are partly offset, right, by the fixed cost absorption impact associated with lower planned production volumes.

We are targeting to reduce our owned inventory levels, and that is having a onetime negative impact on gross margin in 2023. So to your point, there should be upside in 2024 on that factor. And also in terms of cost inflation, we now expect cost inflation to be neutral to our full year 2023 guidance. And that's a little better than our original expectation, but that's being offset by higher inventory management costs.

Stephen Neild Laszczyk - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. That's helpful. And then just on buybacks. You repurchased $34 million in stock in the first quarter. I was wondering if that quarterly pace is something that investors should expect going forward? Or you see the opportunity to maybe ramp up buybacks as the balance sheet delevers into the back half of the year?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

We're very happy to be in the position to resume the share buyback program. That's the first time in 9 years that we bought our own stock. And really it's a reflection of our ability to generate free cash flow, our financial position and confidence in our outlook. In terms of looking ahead, we do expect to make further repurchases in 2023. We haven't given specific guidance. That being said, we have $169 million remaining under our current authorization.

Operator

Your next question comes from the line of Jason Haas from Bank of America.

Jason Daniel Haas - *BofA Securities, Research Division - VP*

So the first one, just on POS in 1Q, you called out the up mid-single digits. I'm curious, was that in line with your initial plan or did it come in above? And then what are you expecting for POS growth in the remainder of the year?

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Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Starting with the full year in the context of our guidance, we are expecting positive POS performance. In our full year guidance, we had the negative onetime impact related to retail inventory correction, that's 3 to 4 points. So that's in there. I would say we're kind of on track in the first quarter. We outpaced the industry and gained market share, so off to a good start.

Jason Daniel Haas - *BofA Securities, Research Division - VP*

And then on -- Anthony, this one is also for you. For the inventory clearance or inventory management headwind to gross margin, is that expected to continue, so should we see another headwind in 2Q? Or are we past that now?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

I think we'll see some headwind, but certainly less than the level we saw in Q1. And just important to note that we're going to wrap in Q4, right, negative costs that we had in 2022. So it should be a good guide of margin when we get to the back half.

Operator

Your final question comes from the line of Fred Wightman from Wolfe Research.

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

I just wanted to come back to Barbie. I mean if we look at the bookings in the quarter, down 40%, they were down 30% last quarter. I think you said POS this quarter was down high single digits. Do you feel like the brand is well positioned to make the most of the upcoming movie launch or not?

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

Look, we are incredibly confident and excited about Barbie's future. We are, obviously, in a current dynamic where we were impacted in the first quarter by elevated retail inventory. We also remind you that the shift of promotional activity has moved into the second quarter, which aligns better with the theatrical release of the movie. In Q2, we are expecting a much better performance compared to Q1, and we're really confident that we're going to continue to gain momentum in the back half and grow in the full year. It's also important to recognize as Barbie is part of our Dolls portfolio, which continues to be a leading portfolio in the industry where we gained 350 basis points of market share in the first quarter.

We've got extraordinary innovation that's lined up, as always, for the back half. The cultural conversation around Barbie is only highlighting the importance of the brand and the age extension that we have as well, both in our core consumer and young adults as we pursue the collector strategy as well. So there's a lot more energy that you will see behind the Barbie brand certainly as we move into the back half, and we couldn't be more confident and excited about the brand's future.

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

And then just embedded in your POS outlook for the year, are you still expecting the industry to be flat to slightly positive? Or has that changed?

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

No change in our estimate regarding the industry flat to slightly up. We believe the toy industry is a growth industry. We expect it will continue to grow over time. Industry has shown resilience and consistency -- consistent growth for more than a decade now, including during challenging economic times. We're seeing the industry also having cultural impact with 8 periodic movies in 2023 alone, led by the Barbie movie, but other movies as well. We're seeing toys and play remaining a significant part of life for children and families. And we believe that while there's still some macroeconomic challenges facing consumers, the industry will be flat to slightly up.

Operator

This concludes our question-and-answer session. Mr. Ynon Kreiz, Chairman and Chief Executive Officer, I turn the call back over to you.

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

Thank you, operator, and thank you, everyone, for your questions. In summary, while retail inventory management impacted the first quarter's results, the underlying business performed well, and our fundamentals are strong. We expect consumer demand to be positive for the full year that we will outpace the industry, gain market share and achieve our full year guidance.

On a personal note, our call today coincides with my 5th anniversary as CEO of Mattel. I would like to thank the entire global organization for working together during this time to transform Mattel into an IP-driven, high-performing toy company. It continues to be a privilege to work with such a talented team, and I look forward to many opportunities ahead for the company and doing more great things together. Thank you again for joining the call today. And now I'll turn the call back over to Dave.

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

Thank you, Ynon, and congratulations on your 5-year anniversary. Thank you for everyone joining the call today. A replay of this call will be available via webcast beginning at 8:30 p.m. Eastern Time today. The webcast link can be found in the Events & Presentations section of our Investors section of our corporate website, corporate.mattel.com. Thank you for participating in today's call.

Operator

This concludes today's call. You may now disconnect.

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