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MAT.OQ - Q4 2024 Mattel Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 04, 2025 / 10:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Hello, my name is Jessica, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mattel Inc., fourth quarter 2024 earnings conference call.

(Operator Instructions) At this time, I would like to hand the call over to Jenn Kettnich, VP of Investor Relations at Mattel. You may begin.

Jenn Kettnich - *Mattel Inc - Vice President - Investor Relations*

Thank you, operator, and good afternoon, everyone. Joining me today are Ynon Kreiz, Mattel's Chairman and Chief Executive Officer; and Anthony DiSilvestro, Mattel's Chief Financial Officer.

As you know, this afternoon, we reported Mattel's fourth quarter and full-year 2024 financial results. We will begin today's call with the Ynon and Anthony providing commentary on our results, after which we will provide some time for questions.

Today's discussion, earnings release, and slide presentation may reference certain non-GAAP financial measures and key performance indicators, which are defined in the slide presentation and earnings release appendices.

Please note that gross billings figures referenced on this call will be stated in constant currency, unless stated otherwise. References made throughout this call to historical market share and market share rankings are sourced from Circana.

Our earnings release, slide presentation, and supplemental non-GAAP information can be accessed through the Investors section of our corporate website corporate.mattel.com and the information required by Regulation G regarding non-GAAP financial measures as well as information regarding our key performance indicators is included in those documents.

The preliminary financial results included in the earnings release and slide presentation represent the most current information available to management. The company's actual results when disclosed in its Form 10-K may differ as a result of the completion of the company's financial closing procedures, final adjustments, completion of the review by the company's independent or 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 latest Form 10-K annual report, our latest Form 10-Q quarterly report, our most recent earnings release and slide 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 - Chairman of the Board, Chief Executive Officer*

Thanks, Jenn. Good afternoon, everyone and thank you for joining our fourth quarter and full-year 2024 earnings call.

2024 was another successful year for Mattel as we continue to execute our multi-year strategy to grow our IP-driven toy business and expand our entertainment offering.

Our priorities for 2024 were to grow profitability, expand gross margin, and generate strong free cash flow. We did exactly that: demonstrating operational excellence and achieving all three objectives well ahead of expectations.

Looking at key financial metrics for the full year as compared to the prior year. Net sales declined 0.5% in constant currency. Adjusted gross margin improved 340 basis points. Adjusted EBITDA increased $110 million or 12%. Adjusted earnings per share increased 32% and free cash flow was nearly $600 million.

These results are particularly noteworthy considering the comparison against the success of the Barbie movie, which contributed approximately $100 million of operating income in 2023.

Execution on our toy strategy was strong, and we grew global market share in key categories of dolls, vehicles, and games. We also made meaningful progress on our entertainment strategy across film, television, digital, consumer products, and live experiences.

The Optimizing for Profitable Growth program is tracking ahead of schedule, with $83 million of savings achieved in the year out of our $200 million target by the end of 2026. We also continue to strengthen our balance sheet, ending the year with $1.4 billion in cash after repurchasing $400 million of shares.

The global toy industry declined slightly in 2024 for Circana, performing better than anticipated and reinforcing our belief that the toy industry has strong fundamentals and will return to growth and continue to grow over time.

In the fourth quarter, we grew top line and achieved very strong profitability. Net sales increased 3% in constant currency. Adjusted gross margin improved 200 basis points. Adjusted EBITDA increased 6% and adjusted EPS increased 21%. Topline growth was driven by Vehicles, Action Figures, and Games partly offset by a decline in Dolls and Infant, Toddler, and Preschool.

We made significant progress in scaling our portfolio, optimizing our operations, evolving demand creation, and strengthening our franchise brands. We successfully relaunched catalog IP, strengthened our relationships with major entertainment partners and key retailers, and created innovative and inspiring product lines.

Looking at full-year performance by category. Vehicles grew meaningfully driven by Hot Wheels which achieved its seventh consecutive record year. Challenger categories collectively grew, led by double digit growth in games, with UNO achieving its highest year on record and significantly outpacing the industry, and gains in Action Figures with strong WWE and Minecraft product offerings.

Infant, Toddler, and Preschool was down as we continued to exit Power Wheels and certain product lines in baby gear in line with our strategy. Importantly, Fisher-Price returned to growth this year, driven by Fisher-Price Woods and Little People.

Dolls was down primarily due to Barbie as we wrapped the movie in the prior year. Barbie was once again the clear leader in the Dolls category and the number two property in the toy industry overall. Monster High increased for the second consecutive year since its relaunch. American Girl grew, reflecting the progress of its turnaround strategy. And Wicked, and Disney's Moana 2 products performed well and resonated with consumers globally.

We also made further progress with our entertainment strategy. In film, the Masters of the Universe worldwide theatrical release date of June 5, 2026, was announced. The film will start production this month in London.

The Matchbox, live-action movie, was greenlit and is now in production, and Monster High and Bob the Builder movies began development. This brings the total number of announced Mattel films in development or production with major studio partners to 16.

In television, Hot Wheels Let's Race Season 2 was a top 10 TV show on Netflix in 27 countries. All three Barbie animated premieres ranked in the top 10 on Netflix in multiple countries. And Barney's World ranked as a top 5 children's show on Max as part of a highly anticipated franchise relaunch.

In digital games, Mattel163, our joint venture with NetEase, continued to grow double digits and exceeded $200 million in gross billings. In live events, The Hot Wheels Legends Tour completed 22 tour stops in 13 countries with attendance growing more than 40% over the prior year.

2025 is our 80th anniversary year. We couldn't be more proud of our mission to create innovative products and experiences that inspire fans, entertain audiences, and develop children through play.

Our 2025 priorities are to grow the top and bottom line while increasing investment in our digital games, self-publishing business to drive long-term growth in line with our capital allocation priorities to invest in organic growth.

For the full year, we expect net sales to increase by 2% to 3% on a constant currency basis and adjusted the EPS to grow by 2% to 6%.

This includes the anticipated impact of new US tariffs on China, Mexico, and Canada imports announced on February 1 and mitigating actions we plan to take, including leveraging the strength of our supply chain and potential pricing.

There are several key drivers in 2025. Across our toy categories, we expect Vehicles to grow with another record year for Hot Wheels, which includes the launch of our Formula 1 partnership. Games to build on UNO's momentum with more innovation and cultural relevance. Action figures to benefit from new product lines tied to the theatrical releases of a Minecraft movie in April and Jurassic World: Rebirth in July, in addition to the global expansion of WWE. Infant toddler and preschool to expand distribution for Fisher Price Wood across major retailers in the US and internationally, and Dolls to see improving trends in Barbie driven by optimizing demand creation, product innovation, and leaning further into momentum with adult fans. We also look forward to the launch of new products ahead of Disney's Snow White theatrical release in March and the second Wicked movie in November.

2025 will be an exciting year for our in-licensing toy partnerships as Mattel is strengthening its position as a partner of choice for major entertainment companies and sports franchises.

As it relates to the toy industry, we expect it would be comparable to slightly up in 2025, primarily driven by the theatrical marketplace returning to a more normalized cadence. We believe Mattel is well positioned to increase market share.

In our entertainment business in 2025, we expect progress to continue on our two films in production and 14 announced films in development. More shows to launch on Netflix, including Hot Wheel's Let's Race Season 3. Barbie's next animated special, a new season of Thomas & Friends and Polly Pocket. New episodes of Barney's World to premiere on Max, and to expand our digital business with the goal of launching our first self-published digital game in 2026.

2024 was another successful year defined by profit growth, gross margin expansion, and strong cash generation.

I am grateful to the entire Mattel team for their collaboration, innovation, and execution, and for achieving these results. As we progress through 2025, we are well positioned to grow and continue to successfully execute our multi-year strategy and create long-term shareholder value.

I will now hand it over to Anthony to cover the financials and our detailed outlook for 2025.

As you've heard, Anthony has decided to retire, and I would like to thank him for the important role he has played in steering Mattel to achieve its strongest financial position in many years. The search for his successor is well underway, but you're not hearing the last of him today. Anthony will stay in the CFO role until May 15 and continue as an adviser until August 15 to ensure a smooth transition.

Anthony, over to you.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Thanks, Ynon. It has been an amazing experience for me in Mattel. It's a great company with a very promising future, and I look forward to supporting a seamless transition.

In terms of Mattel's performance in Q4, as you just heard, we grew top line and achieved very strong profitability. Net sales of $1,646 million increased 2% as reported, or 3% in constant currency. Adjusted gross margin increased 200 basis points to 50.8%. Adjusted operating income increased 10% to $161 million. Adjusted EPS increased 21% to $0.35 and adjusted EBITIDA increased by $15 million to $249 million.

Looking at our full-year performance as compared to the prior year. Net sales declined to 1% as reported and 0.5% in constant currency. Adjusted gross margin improved 340 basis points to 50.9%. Adjusted operating income increased 15% to $738 million more than offsetting the Barbie movie-related benefits in the prior year. Adjusted EPS increased by 32% to $1.62. Adjusted EBITDA increased $110 million or 12% to $1,058 million and we generated $598 million of free cash flow.

Turning to gross billings and constant currency by category, beginning with the fourth quarter. Overall, gross billings increased to 3%, driven by growth in Vehicles and Challenger categories collectively, partly offset by Dolls as we wrapped the Barbie movie benefits from the prior year and Infant, Toddler, and Preschool as we continue to exit certain product lines into Baby Gear and Power Wheel segments. Total POS declined low single digits. Doll's gross billings declined 3% due primarily to a 13% decline in Barbie, partly offset by growth in Monster High. Vehicles had another outstanding quarter growing 16%, driven primarily by Hot Wheels which grew 17%. Infant, Toddler, and Preschool declined 4% due to the declines in Baby Gear and Power Wheels, partly offset by 4% growth in Fisher-Price, which benefited from Little People and Fisher-Price Wood. We are happy to see Fisher-Price grew and the turnaround strategy starting to bear fruit. Challenger categories collectively grew 6%, driven primarily by double-digit growth in both Action Figures and Games, partly offset by a decline in Building Sets.

Turning to the full-year. Gross billings were comparable to the prior year, with gains in Vehicles and Challenger categories overall offset by declines in Dolls and Infant, Toddler. and Preschool. POS declined low single digits.

Doll's gross billings declined 8% due primarily to the movie-related comparison in Barbie. Barbie gross billings declined 12%. Vehicles had an outstanding year growing 10%, driven by Hot Wheels, die-cast cars, tracks and playsets, and R/C. As Ynon unmentioned, Hot Wheels achieved its seventh consecutive record year. Disney Pixar cars, and Matchbox also contributed to growth. Infant, Toddler, and Preschool declined 4%, primarily due to Baby Gear and Power Wheels reflecting our exit strategy, partly offset by growth in Fisher-Price. Fisher-Price grew 4%, benefiting from the launch of FP Wood and growth in little people partly offset by a decline in infants. Challenger categories collectively grew 3%, driven by games which benefited from double digit growth in UNO and action figures, partly offset by a decline in Building Sets.

Looking at fourth quarter gross billings by region. North America increased 1%, EMEA increased 10%, Latin America declined 5%, reflecting softness in Mexico, and Asia Pacific grew 10%, driven by strong growth in Australia.

Looking at full-year gross billings by region. North America declined 1%, EMEA declined 2%, Latin America declined 1%, and Asia Pacific grew 10%, driven primarily by double-digit growth in Australia.

We ended the year with retail inventory levels comparable to the prior year both in dollars and weeks of supply. While comparable at year end, retail inventory movements had a positive impact on gross billings growth in the fourth quarter, given we're wrapping a more significant seasonal decline in the prior year. We are beginning 2025 with retail inventory levels slightly elevated. Although the inventory is high quality, we expect it will be a headwind to our first quarter performance.

Adjusted gross margin was 50.8% in the quarter, an increase of 200 basis points as compared to 48.8% in the prior year period. This strong increase in margin was driven by several factors. Savings from Optimizing for Profitable Growth added 90 basis points, lower inventory management costs, primarily closeouts and obsolescence, added 90 basis points, supply chain efficiencies, including fixed cost absorption, added 90 basis points, and foreign exchange and other factors added 60 basis points. These gains were partly offset by an 80 basis point negative mix impact as we wrap accretive benefits associated with the Barbie movie in the prior year and cost inflation, which had a 50-basis point impact in the quarter.

For the full year, adjusted gross margin increased 340 basis points to 50.9%. The increase was primarily driven by supply chain efficiencies, cost savings, lower inventory management costs, deflation, and other factors which more than offset the prior benefit associated with the Barbie movie.

Moving down the P&L. In the fourth quarter, advertising increased 10% to $257 million, as part of our plans to shift spending into the latter part of the year. Adjusted SG&A increased 2% to $418 million primarily due to higher compensation expenses, partly offset by savings from the Optimizing for Profitable Growth program. For the full year, advertising decreased 3% to $507 million. Adjusted SG&A for the full year increased 5% to $1,493 million. Adjusted operating income in the fourth quarter was $161 million compared to $147 million, an increase of 10% driven primarily by higher gross margin. For the full year, adjusted operating income increased 15% to $738 million, with adjusted operating income margin expanding 190 basis points to 13.7%. Adjusted EBITDA in the fourth quarter was $249 million compared to $234 million, an increase of 6%. For the full year, adjusted EBITDA increased 12% to $1,058 million. Adjusted EPS in the fourth quarter was $0.35 compared to $0.29 in the prior year, an increase of $0.06 or 21%. For the full year, adjusted EPS increased by $0.39 or 32% to $1.62. In addition to the operating income improvement, EPS performance benefited from higher interest income, a lower adjusted tax rate, and higher earnings from our equity method investment in Mattel163, as well as a lower share count from our share repurchase activity.

Cash flow generation for 2024 was strong. Cash from operations was $801 million compared to $870 million in the prior year. The prior year benefited from lower working capital primarily driven by a significant inventory reduction.

Capital expenditures were $203 million including $59 million for the acquisition of a new global design center to replace a leased facility. Capital expenditures in the prior year were $160 million. Free cash flow was $598 million compared to $709 million in the prior year.

Consistent with our capital allocation priorities, we repurchased $400 million of Mattel shares in 2024, bringing the total since resuming the program in 2023 to $603 million.

Taking a look at the balance sheet. This was another year of improving our financial position. We finished the year with a cash balance of $1,388 million compared to $1,261 million a year ago. The cash increase reflects our 2024 free cash flow net of shares repurchased.

Total debt was $2,334 million consistent with the prior year. Our portfolio is well positioned with no scheduled maturities until 2026. Accounts receivable were $1,003 million compared to $1,082 million, a decline of $79 million. The decline was due to foreign currency translation and a reduction in days sales outstanding.

Inventory at year end was $502 million compared to $572 million in the prior year, a reduction of $70 million. Our inventory is at the lowest level in recent years.

Debt to adjusted EBITDA finished the year at 2.2 times, excluding the benefit of our $1.4 billion cash balance. This compares to 2.5 times a year ago. The improved leverage ratio was driven by the growth in adjusted EBITDA.

We continue to generate significant cost savings. Under our Optimizing for Profitable Growth program, we achieved cost savings of $24 million in the quarter, with $16 million benefiting cost of goods sold and $7 million in SG&A. For the full year, we realized $83 million of cost savings and are tracking ahead of schedule to achieve the program savings target of $200 million by 2026.

Turning to our guidance for 2025. We expect net sales and constant currency to increase by 2% to 3%. The key drivers of expected sales growth include continued momentum in Vehicles and Games driven by Hot Wheels and UNO, in Dolls, the launch of products tied to the theatrical releases of Disney's Snow White and the second Wicked movie, in Infant, Toddler, and Preschool, the global rollout of Fisher-Price Wood, and in Action Figures, the benefit of licensed movie properties, Jurassic World and Minecraft.

Foreign currency translation, based on current spot rates, is expected to have a negative impact of approximately 2% points on our net sales performance. Adjusted gross margin is expected to be comparable to the prior year.

Adjusted operating income is expected to be in the range of $740 million to $765 million with the increase primarily driven by net sales growth.

Moving ahead, we will be guiding to adjusted operating income instead of adjusted EBITDA as we believe adjusted operating income is a more comprehensive profit metric for Mattel. The adjusted tax rate is expected to be 23% to 24% compared to 21% in 2024.

Adjusted EPS is expected to be in the range of $1.66 to $1.72 compared to $1.62, an increase of 2% to 6%.

As Ynon said, this includes the anticipated impact of new US tariffs on China, Mexico, and Canada imports announced on February 1st and mitigating actions we plan to take, including leveraging the strength of our supply chain and potential pricing.

The guidance is also inclusive of increased investments in our digital games self-publishing business to drive long-term growth, which are reflected in SG&A and in line with our capital allocation priorities to invest in organic growth.

We continue to improve productivity and expect to achieve $60 million in additional cost savings during 2025 through our Optimizing for Profitable Growth program. Free cash flow is expected to be approximately $600 million.

Reflecting confidence in our strategy to create shareholder value, we are targeting $600 million of share repurchases in 2025 subject to market conditions. Together with the $400 million we repurchased in 2024, this will fully utilize our total $1 billion authorization in just two years. The benefit of share purchases is reflected in our EPS guidance.

The guidance considers what the company is aware of today but remains subject to market volatility, unexpected disruptions, including additional regulatory actions impacting international trade such as tariffs and other macroeconomic risks and uncertainties.

In closing, we had a strong fourth quarter and exceeded expectations for the year on our key priorities to grow profitability, expand gross margin, and generate free cash flow, and continue to strengthen our balance sheet. We look forward to growing the top and bottom line in 2025 as we execute our strategy.

And with that, I will turn it over to the operator, and we'd be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Stephen Laszczyk, Goldman Sachs.

Stephen Laszczyk - *Goldman Sachs Group, Inc. - Analyst*

Hi, good, thank you for taking the questions. Two, if I could. Maybe first for Ynon. Could you talk a little bit more about what's giving you confidence in achieving that top line growth outlook for 2025 of 2% to 3%. You mentioned some of the opportunities, I think ahead in Vehicles, Games and Action Figures. Could you maybe expand on that a little bit? And then I'd be curious what you're hearing from your retail partners on the demand side as we head into 2025, especially against a year and a holiday where it seems like inventory exited at somewhat elevated levels. Any thoughts there would be much appreciated.

And then a quick one for Anthony, hopefully. Is there any more detail you can give us around the assumptions you're factoring into your guidance as it relates to tariffs and some of the factors and contingencies you're planning to put in place if they stay in place for the duration of the year? Particularly around any headwinds to unit sales or margins that you're factoring in?

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Hi, Stephen. We expect a few drivers, both in toys and entertainment. On the toy side, we are seeing continued -- expect continued momentum in Vehicles and Games driven by Hot Wheels, which we believe will have another record year, and UNO, which just had its highest year ever. Both brands are doing really well with a lot of innovation, and we expect them to continue to drive business.

In Dolls, we're launching product tied to the theatrical releases of Snow White with Disney and the second Wicked movie, and we also expect improving trends in Barbie. By then, it will be two years post the movie. And Infant, Toddler and Preschool, we are launching -- rolling out the globally Fisher-Price Wood, which is having very good momentum. And in Action Figures, we're going to bring out two big movies, Jurassic World and Minecraft, and continue to expand globally WWE, which is itself benefiting from the Netflix show or deal that they're rolling out around the world.

We also have on the entertainment side, some good drivers as well with more shows on Netflix, Hot Wheels Let's Race Season 3, Barbie's animated special, and new seasons of Thomas & Friends and Polly Pocket. Also, Barney is having its own exposure on MAX, and we continue to drive the business overall. So good momentum, strong execution and feeling very good about the prospects for the year.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

And I could comment on Q1, and I'll come back to tariffs, Stephen. With respect to Q1 and how we're starting the year, POS is off to a good start, but there are a couple of factors that need to be considered with respect to gross billings in the quarter. The first is there is a later Easter holiday in 2025 and as a result, we would expect some modest shift of timing of shipments between Q1 and Q2, and also, as we stated, we ended 2024 with retail inventories slightly elevated. This inventory is high quality and we'll work through it in the first quarter. And importantly, we're guiding to top and bottom line growth for 2025.

Moving to the topic of tariffs. Taking a step back for a moment, over the past several years, we have been continuously optimizing and diversifying our manufacturing footprint. Today, we source products from 7 different countries and in 2025, we expect China will represent less than 40% of global production for our toys and that's compared to an industry average of about 80%. And with the US representing about half of our global toy sales, our tariff exposure in the US related to China should be about 20% of global production. And with respect to Mexico and Canada, we currently source less than 10% of our toys from Mexico and have no sourcing from Canada.

And by 2027, no single country is expected to represent more than about 25% of total global production or about half of that in terms of US sales. Now with respect to the tariffs, our teams have been fully engaged in analyzing and planning for a range of scenarios and in terms of the financial impact on Mattel, our 2025 guidance includes the anticipated impact of the new tariffs based on what we know today and mitigating actions we plan to take, including those leveraging the strength of our supply chain and potential pricing.

Operator

Alex Perry, Bank of America.

Alexander Perry - *BofA Securities - Analyst*

Hi, thanks for taking my questions here and congrats on a strong quarter. And Anthony, congrats on your retirement as well. I guess just first, I sort of wanted to follow-up on that last line of questioning. In terms of the top line, how is sell-in positive for 2025 if you're tracking at low single-digit declines in POS as the exit run rate in 4Q and then you said retail inventory slightly elevated. Is the expectation that POS turns positive and I guess what is driving optimism there? Is that all based on the visibility you have on the improved content slate. And then just back to the first quarter, Anthony, how much below that sort of full year 2% to 3% growth should we be thinking about for the first quarter?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yes. So Ynon went through some of the key drivers, right, in terms of our expectation around 2% to 3% net sales growth in constant currency, currency, so I don't need to repeat those. We believe there's enough drivers. We believe we are well positioned to outpace the industry and gain market share in 2025, right? We have a lot of innovation coming. We have a lot of activations coming. Again, we're very confident we can achieve that guidance.

In terms of the flow of the first quarter, right, - let me talk about retail inventory levels. We ended the year with retail inventories comparable to the prior year. So a little bit of headwind as we go into Q1, and that's why we mentioned that in terms of the first quarter outlook and also the timing of the Easter holiday. But beyond that, we expect to achieve growth balance of the year and achieve our guidance.

Alexander Perry - *BofA Securities - Analyst*

Makes sense. And then just back to the tariff mitigation strategy. You guided '25 ahead of expectations inclusive of the impact of tariffs. Any help on what you're actually doing to mitigate? Are there certain parts of the portfolio that you think you have the elasticity to raise price on? Are you cost sharing with suppliers? And then maybe just any like EPS or quantification of what's embedded in the guide in terms of a bottom line hit from the tariffs, especially as it relates to Mexico and Canada since those are now delayed?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yes. I mean I understand the question. But without getting into specifics on our end because there is many puts and takes to this. As we said, our guidance does include a range of assumptions, not just around tariffs, but on other items like cost inflation and mix and production and many assumptions, right? And certainly, against the tariffs, we have a range of mitigating actions. We don't want to necessarily disclose our playbook, but they are in response to the tariffs, they do leverage the strength of our global supply chain and they also include potential price increases. And look, we do work closely with our retail partners to achieve the right balance and always keep consumers in mind when we consider pricing actions.

Alexander Perry - *BofA Securities - Analyst*

Perfect. All very helpful -- sorry, go ahead.

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Just to add the point on supply chain that Anthony touched on, which is, this has been a strategy that we've implemented since 2018. It was a proactive strategy to diversify and build a geographically balanced supply chain infrastructure that will allow us to be better positioned for different eventualities. It wasn't about any one particular country, and it wasn't even necessarily about tariffs. It was just about making sure you have a resilient, flexible well-diversified supply chain system.

And between our own factories and third-party factories operating out of 7 different countries, we have a lot of flexibility in the model -- and this would be our first port of call, how do we leverage our capabilities there. And of course, we have other mitigating actions we can take but feel good about the plan, factoring what's been announced and other potential changes as well.

Operator

Megan Clapp, Morgan Stanley.

Megan Clapp - *Morgan Stanley & Co LLC - Analyst*

Thanks so much, congrats to Anthony as well. We will certainly miss you. I'm going to try and ask this question again, maybe just a bit more pointed. On the first quarter, can you just help us understand how much sales should be down. There's a lot of moving parts. If I just simply do math on, POS was down low single digits in the fourth quarter, your shipments were up 2%, that's a 5-point gap. If you just do the math on sales, my math says it could be a 10-point plus headwind in the first quarter. Is that too big? Maybe if you could just, again, just help us understand a little bit more what 1Q should be down and what's the impact on margins as well?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yes. Let me take that in two parts, Megan. The first is your comments around the Q4 gross billings relative to POS somehow being a headwind into 2025, and that's not the case. And let me talk a little bit about the delta between gross billings and POS in the fourth quarter, and I got to go back a little bit and give you a little bit of context. Retail inventory levels typically follow a seasonal pattern. The increase in the third quarter ahead of the holiday season and decline in the fourth quarter, right as the products sell-through, and the change in that build and decline year-over-year impacts our gross billings. And what happened is, in the fourth quarter of the prior year we saw a more significant decline in the fourth quarter compared to this year. And that's what driving this delta between gross billings and POS. So it's more to do with last year as opposed to this year and it's not a carryover impact into 2025.

That said, our inventory levels are slightly elevated but we have, I would call it, a very modest impact to correct that situation in Q1, right, so we're planning a headwind. The other potential headwind is a little bit of timing shift to a later holiday season. So we're not guiding to Q1 to say, look, we're going to be below our full year run rate because of those two factors.

Megan Clapp - *Morgan Stanley & Co LLC - Analyst*

You typically talk first half, second half. I know it can be hard to guide by quarter. Can you -- is there any color you can give around first half, second half expectations for time.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

We've been in that more normal 35%-65% range, and there's no expectation that will change in 2025.

Megan Clapp - *Morgan Stanley & Co LLC - Analyst*

Okay. And then maybe just as a follow-up. You talked about increased investments in digital. Is that OpEx or CapEx? I didn't catch if you gave us CapEx guidance, so if you have, could give us CapEx guidance, that would be great as well.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Sure. What we're talking about on the self-publishing side, so these are initiatives we've talked about before to capture more of the upside right, and drive long-term growth, right, and again, these are self-publishing efforts. They will be recorded in the SG&A line, not CapEx. And I can tell you, CapEx for 2025 would be comparable to 2024 levels.

Operator

Chris Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Thanks and good evening and congratulations to Anthony. So I wanted to follow up on the gross margin. I understand there are a lot of puts and takes especially with the tariffs. But can you give broad strokes views on what the drivers of gross margin would be? Would seem like you still have -- the efficiencies for growth have come in better than expected. It seems like you should still have a good benefit there coming in into 2025, and you do plan to grow sales, so maybe there's some fixed cost absorption. Is essentially like the offset the tariffs, and that's how you get down to a flat gross margin? So just overall, talk about the drivers within gross margin.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Sure. Happy to do that. The first comment I'll make is the performance of 2024, up 340 basis points to 50.9%, so we're working off a higher-than-expected base. But when you think about 2025, I would bucket it in terms of some headwinds and some tailwinds. Headwinds. The first one would be cost inflation, right, so in the fourth quarter and after a number of quarters of deflation, we actually saw some inflation, and we expect that to continue into 2025. That's a combination of labor cost inflation and some inflation on logistics. The other headwind would be the tariffs themselves. Then in terms of tailwinds, there's really three. The mitigating actions we're going to take against those tariffs, plus a little bit of scale benefit or fixed cost absorption. And the third would be cost savings from our Optimizing for Profitable Growth program. We -- we're off to a great start on that program. This is the one we announced at the beginning of 2024. We achieved $83 million of savings in 2024, and are guiding to an additional $60 million of savings in 2025 and the majority of those will benefit cost of goods sold. But when you put all those factors together, that supports the guidance of comparable performance on gross margin year-over-year.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Got it. And then just as we think about the tariffs impact and the ability to execute pricing I guess, presumably, there will be a lag to that. So is it sort of embedded in there sort of more headwinds earlier and then recovery later in terms of how the gross margin sort of shape will look?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yes, there's a little bit of delay to both actions. We have to run inventory through the balance sheet, there's a lag there. So without getting into too much detail, we're confident that we can execute these actions. And when you consider our gross margin holistically, we plan to hold our margin year-over-year.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Got it. And then one quick 1Q sales follow-up, which is, as you think about the timing of Snow White and Minecraft, is that potentially substantial enough to offset the later Easter?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

No, I wouldn't say so.

Operator

Arpine Kocharyan, UBS.

Arpine Kocharyan - *UBS Investment Bank - Analyst*

Hi, thank you. Strong set of results. Congratulations. To just maybe ask one more question somewhat related to tariffs. Do you expect major shifts in FOB at all given tariffs. Typically, that could be as much as 40%, 50%, of annual shipments, could there be any sort of surprises there in terms of what retailers could do given the changing landscape of tariffs? Any color there would be great. And then I have a quick follow-up.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yes. Arpine, I would say it's really too early to say. We obviously work very closely with our retail partners, and we'll figure this thing out.

Arpine Kocharyan - *UBS Investment Bank - Analyst*

Okay. I think it was the first time we saw Hot Wheels surpass Barbie in volume in terms of annual results, which speaks to the incredible diversification. Hot Wheels growth has just been impressive and continues to defy odds, right. Could you speak to those drivers for 2025, including entertainment plans and timing? Do you have any updates on the movie on Hot Wheels?

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Well, we -- you're talking about Hot Wheels, specifically. Yes, it has been just an incredible execution of a comprehensive strategy, a very broad range of products, different lines, and different executions, and continuing all along to build a strong relationship, emotional connections with fans all over the world, and broadening the audience even more. Achieving seventh consecutive record year is a huge achievement, and we also are saying now that we are targeting another record year.

You can see also how we continue to innovate and add new partnerships. F1 and Ferrari are recent announcements, both will launch this year with a whole range of Die-cast Cars. There's something very telling about the range of products that we have with Hot Wheels where, on one hand, we sell a product at $1.25. This is Hot Wheel's basic car, which is the number 1 selling toy in the industry, all the way to a $700 Daniel Arsham collector set as well. So you have a full range, incredible product offering, across different price points.

We also continue to evolve outside of the toy aisle. There's the TV show, the Hot Wheels Let's Race that is doing well and expanding distribution. We're broadening the Hot Wheels Legends Tour even more. It just wrapped its 7th consecutive year with the highest attendance ever, 125% up year-on-year, and incredible reach in terms of media impressions. So lots to be excited about. And this is before we even talk about the movie, which is also developing well. Produced by JJ Abrams at Warner Brothers. I can't reveal too much but it's getting better and better in terms of the package we're putting together. And when this comes out, there will be a whole new level of acceleration and excitement that we expect will happen.

Arpine Kocharyan - *UBS Investment Bank - Analyst*

Great. Great. And then I have one more quick -- I'm sorry for a third question. Outside of ASP movements year-over-year, could you share what is the extent of pricing actually you're taking for 2025, if any?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

I didn't hear the first part to your question, Arpine?

Arpine Kocharyan - *UBS Investment Bank - Analyst*

Yes. I don't know why. I -- I literally can't hear half of what you guys are saying and you probably can't hear me, but I was asking outside of ASP movements year-over-year in your product line, could you share what is the extent of pricing action you are thinking of for 2025? Outside of ASP? Yes.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yes, so we haven't given any specifics around pricing actions. That's something that's one of the potential actions related to the tariffs. And again, as we said, we're going to be working closely with our retail partners here to find the right balance on that front.

Operator

Eric Handler, ROTH Capital.

Eric Handler - *ROTH Capital Partners - Analyst*

Good afternoon, thank you for the question. Anthony, you gave good perspective on the puts and takes for gross margin. I wonder if you could do the same for operating expenses? And then also with regards to the guidance, are you -- are buybacks assumed as one of the drivers in the bottom line expectations?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yes. So let me start with the buyback. We've been very active on the buyback front. We resumed repurchases in 2023, we did $200 million. We did $400 million in 2024. Now we're accelerating to a targeted level of $600 million in 2025. And we have built in the benefit of that in terms of the lower share count and a benefit to EPS. So that's been there. And with that $600 million, we would have repurchased close to 20% of our market cap and fully utilized the $1 billion authorization in just two years. In terms of the middle of the P&L, we're not giving specific guidance, but I don't think you'll see levels materially different from the current year.

Eric Handler - *ROTH Capital Partners - Analyst*

Okay. And Ynon, you've talked a long time about wanting to build up entertainment. You said entertainment at scale can be very profitable. Can you give us some perspective, and you listed a whole bunch of things that impacts your entertainment line, but how big is this entertainment bucket right now? And where do you think that can go over the next several years?

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Eric. We talked about it before that we haven't provided a breakdown between toys and the entertainment strategy. But we have said -- and we still say and are very encouraged by the progress we are seeing, that entertainment at scale can have a meaningful impact on our financial profile. And there's one example I can talk about or something current that we mentioned before that is also, we're discussing here as well, is our investment in mobile games. This is a new initiative for us in terms of investing in self publishing, still within a capital-light construct. So it doesn't change our risk profile, but it does give us what we believe is an asymmetric potential return in an exciting, growing industry, where brands play a critical role. And our strategy is all around how do you leverage the strength of our brands to create additional value outside of what we used to do as a company primarily just in the toy business.

Where we stand out is with the strength and quality of our portfolio. These are brands that have heritage value, very diverse mix of franchises across genres and demographics that is very current, very cultural, and really move the needle. So we are now executing this strategy at scale. The question used to be whether brands resonate outside of toys, then the question was, can we actually do that because Mattel was never successful fully in executing an entertainment strategy. Now that we have very clear proof points in a few areas not just the movie, but also in digital, in consumer products and parks and other areas. The question now is, can you do that at scale. And this is exactly where we are in terms of our journey -- and you will see more of that coming through in the coming years.

Operator

Fred Wightman, Wolfe Research.

Frederick Wightman - *Wolfe Research - Analyst*

Hey guys thanks for the question. I just wanted to ask on the industry outlook. You've been pretty emphatic and pretty consistent that you expect that to grow in '25. But if you look at the language in the release and the slides today, you're saying comparable to slightly up. So I'm wondering what maybe is giving you a little bit more caution versus your prior outlook?

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Well, we've been very consistent about our positive outlook with respect to the industry. And entering even 2024, as you'll recall, the expectation was for a high, up to a high single-digit decline, when you heard what other people said. And we've always been more positive and we liked to see that the industry did stabilize and only declined slightly in 2024, less than 1%. And so, this is a good place relative to what the expectations were out there. And we continue to see the industry performing better than people expect. We continue to believe that the toy industry has strong fundamentals and that it will return to growth and will continue to grow over the long term.

We're seeing toys continue to play an important part of consumers' lives. We're seeing retailers prioritizing toys as a strategic lever. We know that toy shoppers drive traffic, they spend more time in stores and typically have a bigger basket. Looking back, you see that toys over time, toy POS has been growing and outpacing declines in birth rates. The industry growth has been driven by both pricing and units, which is a healthy place to be.

And adult collectors, this is proving to be a sustainable trend. So with that, we do expect the industry to be comparable to slightly up in the year. We're seeing theatrical movies coming back to their normal cadence with the whole slate of movies. We have some exciting partnerships, we mentioned Snow White and Minecraft, Jurassic World, the second Wicked movie, but there are other movies that are coming out, all of which gives the industry buoyancy. This is not just about toy products directly related to the movies, but it's a general buoyancy in the industry.

And within all of that, we believe that we are very well positioned to increase our own market share and outperform the industry. And a combination of that gives you maybe a longer answer than you asked for, but I hope that I give you enough color in terms of our belief in the industry and where we think we can end up.

Frederick Wightman - *Wolfe Research - Analyst*

No, that's super helpful. And then just one more quick one. Could you give us a little bit of color on how you're thinking about Mattel Brick shop, maybe what the opportunity for that could be, how quickly that could ramp and maybe what that means for some of the other construction brands that you guys have?

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Yes, this is another exciting opportunity for Mattel where we leverage our capabilities between design, very strong supply chain, and a global commercial platform. This, we haven't announced the exact product that we are launching, we said we will do that in May. But as always, you can expect the best, and an exciting product execution from Mattel. What is interesting to note, and I should highlight that, is that we are leaning on the Mattel brand and leveraging the trust and relationships that fans have with Mattel.

This will not be under the Mega brand, but under the Mattel umbrella brand. And the same strong people that we have in the company will drive that, and we are excited by this opportunity to have another growth driver for us.

Operator

Linda Bolton-Weiser, D.A. Davidson.

Linda Bolton-Weiser - *D.A. Davidson & Co. - Analyst*

Hello. So I was curious about the mitigating actions that you're taking to offset the tariffs, and you're alluding to your supply chain strategies and your competencies there. I'm wondering if in some weird kind of way the tariffs could be like a blessing in disguise, because if you have competitors who can't leverage their supply chain and don't have the advantages that you have, that maybe you can be able to kind of be more competitive against your competitors? And in some ways, tariffs could help your positioning in the industry. I'd be interested in your thoughts on that.

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Yes. Thank you, Linda, for the question. Yes, we do believe that supply chain is a competitive advantage for us. We worked very hard to turn it into a competitive advantage. It used to be, you can call it a handicap at some point in the past, but we now see this as a very strong competitive advantage. And it's -- and what you've seen, is that in times where there is dislocation in the market and changing dynamics in different and challenging market conditions, we stand out.

We are very good at managing complexities. This is what we do. During COVID, where supply chain was a real bottleneck for many people, not just in toys, I'm talking more broadly. Supply chain was one of our strongest competitive advantages, and we continue to leverage that across multiple ways. This is not, I should say, this is not just about cost. It's also about quality, it's about service levels, it's about how we work with retailers, it's about how do you place the right product at the right time, at the right amount on the right shelf. We work with 500,000 stores where we sell our product. This doesn't include online retail and e-commerce that comes on top of that. So we continue to improve and strengthen our supply chain. Supply chain was also a big driver for the improvements and efficiencies that we achieved this year that help us get to such high levels of gross margin and profitability. So, it is an advantage, and we work hard at continuing to improve what we do and serve fans and work in close collaboration with our retail partners to continue to grow and expand our business.

Okay. Thank you, and thank you everyone for your questions. This was another successful year for Mattel as we continue to execute our multiyear strategy. Looking to 2025, we are excited to celebrate Mattel's 80th anniversary and are well positioned to continue to grow profitability and capture the full value of our IP.

Before we conclude today's call, on behalf of all of us at Mattel, I would like to express our sadness for those impacted by the devastating wildfires in our headquarter city. Mattel has been working extensively with non-profit partners to support children and families in need following this unprecedented crisis. Our hearts go out to all of those who have been affected, including our L.A. based team members and all of our partners and our support is ongoing. Thank you. Thank you, everyone. And now I will turn the call back over to the operator.

Operator

Thank you again for joining us. This does conclude today's conference call. You may now disconnect.
