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MAT - Q4 2015 Mattel Inc Earnings Call

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OVERVIEW:

Co. reported 2015 net sales of $5.7b and adjusted EPS, including discrete tax items, of $1.31. 4Q15 adjusted EPS, including discrete tax items, was $0.67.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Mattel, Inc. fourth-quarter 2015 earnings conference call. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to turn the conference over to Martin Gilkes, Vice President, Investor Relations. Please go ahead.

Martin Gilkes - ***Mattel, Inc. - VP, Corporate Strategy and IR***

Thank you, Sabrina, and good afternoon, everyone. Joining me today are Chris Sinclair, Mattel's Chairman and Chief Executive Officer; Richard Dickson, Mattel's President and Chief Operating Officer; and Kevin Farr, Mattel's Chief Financial Officer.

As you know, this afternoon we reported Mattel's 2015 fourth-quarter and fiscal year-end financial results. We will begin today's call with Chris, Richard, and Kevin providing commentary on our results, and then we'll take your questions.

To help guide our discussion today, we have provided you with a slide presentation. Both our earnings release and slide presentation include non-GAAP financial measures. The information required by Regulation G regarding non-GAAP financial measures is included in these materials, and both documents are available in the investors section of our corporate website, corporate.mattel.com.

Before we begin, I would like to remind you that certain statements made during the call may include forward-looking statements relating to the future performance of our overall business, brands, and product lines. These statements are based on currently available information, and they are subject to a number of significant risks and uncertainties that could cause our results to differ materially from those projected in the forward-looking statements.

We describe some of these uncertainties in the risk factors section of our 2014 annual report on Form 10-K, our 2015 quarterly reports on Form 10-Q, and other filings we make with the SEC from time to time, as well as in our other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.

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

Chris Sinclair *- Mattel, Inc. - Chairman and CEO*

Thanks, Martin, and good afternoon, everyone. Let me add my thanks for all of you joining us today.

To get things started, I'd like to provide some perspective on the fourth quarter and, importantly, on the progress that we're making against our transformation. Following this, Richard and Kevin will provide additional details on the quarter as well as an outlook on what's ahead. And as Martin indicated, at the end we'll leave time for your questions.

Let me begin by saying that our fourth-quarter performance and our full-year results were encouraging, and they reflect some significant and continuing progress from where we stood a year ago, when we first began to execute against our six strategic priorities and our cultural transformation. Gross sales for the quarter greatly improved and, excluding the impact of foreign exchange, increased by 3%. Gratifying to me, for the full year we achieved our goal of stabilizing the business, with a gross sales increase of 1% in constant currency.

Importantly, as an underpinning to this, we also succeeded in revitalizing some of our critical core brands. We executed very well at retail, as evidenced by both POS and shipping trends. Mattel's global POS was positive in the quarter, up 3%, and we ended the full year up in both North America and in international.

The majority of our core brands of also ended the year with positive POS while demonstrating some very solid momentum in the fourth quarter. We are particularly pleased with Barbie POS, which, despite a very competitive category, ended the year on a high note, with the fourth-quarter results reflecting continuing double-digit growth in North America and positive numbers in international.

As expected, we also began to see overall shipping and POS trends converge with sales and POS both up by 3% in the quarter. The same held true for Barbie, up 8% and 9%, respectively. Our improved brand and commercial alignment also resulted in better retail inventories as we ended the year. So overall we're very encouraged by our POS and shipping momentum, and we continue to point to progress in North America as a good leading indicator of future performance globally.

Now, also fueling growth were our investments in emerging markets, with China sales up by 34% in the quarter in constant currency and up 43% for the year. Despite all the challenges in Russia, we saw our business grow there by 22% in 2015.

Turning to our financials, we are also pleased by our results, as many of our cost initiatives have started to kick in. We continue to manage the middle of the P&L quite well, which enabled us to offset some significant foreign exchange headwinds and provided resources to invest in growing the business.

Excluding the impact of foreign exchange, our gross margin for the year was 50.2%, which is in line with our long-term objective. And our adjusted SG&A was down almost $70 million versus last year -- this even as we funded an increased level of incentive compensation.

Now, key here was the fact that we beat our 2015 cost savings goal by about $30 million, and we continue to be on track to deliver at the high end of our two-year savings target of $250 million to $300 million. Our financial discipline was also reflected in our strong balance sheet, where we exceeded our year-end cash objective while continuing to maintain our dividend.

So exiting 2015, as I said upfront, we are encouraged. We feel good about stabilizing the business and also about executing well on our turnaround. As we move forward, and as you well know, we still face many challenges, including the impact of the loss of Disney Princess, continued declines in Monster High, some recent softness in American Girl, and continued foreign exchange headwinds.

But fortunately, Mattel has many strengths to work with. We also have the right strategies in place to execute well and to perform. We continue to believe that we can fill a significant portion of the Disney Princess gap and also offset continued softness with Monster High. And our goal remains to hold things relatively flat at the top line in constant currency in this year of transition.

Supporting this, on our core brands, we exited the year with great momentum in Barbie, Fisher-Price, Hot Wheels, and Thomas. And we expect this to continue. We also have a number of initiatives to support Monster High in 2016, and we'll certainly be leveraging our newly announced content partnership with American Girl and Amazon Studios as another catalyst to improve performance.

Additionally, our Toy Box unit has a much stronger licensed entertainment slate in 2016, led by Warner Bros. and its DC Comic Universe, as well as the Teenage Mutant Ninja Turtle license with MEGA Brands. And, finally, we expect continued good growth from our investments in emerging markets.

Now, while we drive hard to hold the top line, we'll also continue to be very aggressive in reducing costs. Here we expect to maintain our gross margins through ongoing improvements in our global supply chain, while at the same time dropping more of our cost savings in SG&A to the bottom line. We'll also remain disciplined with our balance sheet as we continue to fund the turnaround and support the dividend.

As I said, 2016 will have its challenges, particularly on the top line; but we do expect to make additional good progress on all fronts, continuing our cultural transformation while also executing against our key priorities. As we do so, we see a clear path to restoring real growth and momentum as we move to 2017. Momentum on our core brands; expansion of our MEGA Construction business; rapid emerging market expansion; and a much stronger licensed entertainment slate with our multiyear program with Warner Bros., our newly renewed Disney Cars license with its 2017 theatrical release, and Toy Story 4, which is slated for 2018, all set us up very well as we look ahead. We'll expand much more on this when we see many of you at our 2016 Toy Fair in a couple of weeks.

Let me just wrap up here by saying that, clearly, I'm pleased with the progress to date; encouraged with the momentum we have going into 2016; quite excited about our prospects to grow this business in 2017 and beyond. With that, let me now introduce Richard, who will go into a little more detail on our 2015 performance and our outlook for 2016. Richard?

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

Thank you, Chris. You can see that a remarkable transformation is well underway at Mattel -- a transformation that goes far beyond our performance in the fourth quarter and includes the ongoing revitalization of our core brands, the rebuilding of relationships with strategic license partners, accelerated growth in emerging markets, and a much more effective presence at retail.

Today I'll highlight some key aspects of our progress. I'll address our challenges for 2016 and share our optimistic views of our future. I'm also going to look forward to continuing this conversation in much more detail at Toy Fair in just a few weeks, where we will have much more news to share.

On last quarter's call, I noted that our POS continued to outpace shipping, creating an major opportunity to increase sales going forward. And we seized that opportunity, thanks to a vastly improved brand management and programming; a better-aligned and higher-performing commercial organization; and new marketing, which is beginning to make strong connections with our consumers. The result was a very solid fourth quarter.

Global POS increased by 3% and built momentum during the holiday season in both domestic and international markets. We also vastly improved the alignment of global POS with shipping, with fourth-quarter shipping up 3%, excluding foreign exchange.

In addition, as Chris noted, we saw overall shipping in constant currency and POS trends converge for a number of our core brands. Barbie global POS was up high single digits in the fourth quarter, aligned with global shipping, up 8%. The brand continued to see double-digit POS performance in the US, which, combined with positive international POS, positions the brand for 2016 with solid momentum.

Despite the very competitive North America doll market in 2015, exciting new brand initiatives proved effective with consumers, and sales were up 24% in North America. Going forward, expect us to leverage these successes and build on the Barbie brand momentum. We have a growing pipeline of exciting innovations that we are confident will make the brand even more relevant and engaging in 2016.

The latest example: a groundbreaking new line extension from Barbie Fashionistas that makes the brand even more reflective of the world kids see and experience today. Never has Barbie been more diverse on so many dimensions and more celebrated.

Time Magazine's cover story and associated buzz last week are great examples that underscore not only how powerfully relevant the Barbie brand is, but reinforced that we're on the right track. It's this kind of brand leadership that is changing the cultural conversation in ways that only Barbie can, and we couldn't be more pleased.

Fisher-Price showed comparable POS gains for the quarter, up high single digits and aligned with shipping. These increases were in both North America and international markets, with notably strong results in the Fisher-Price core business, setting the stage for continued success in 2016.

Thomas, leveraging interest in the brand's 70th anniversary, continued to grow in new markets and maintained strong momentum throughout the holiday period. We continue to make progress with Fisher-Price, providing innovative new products and solutions for today's mom, improving its messaging to once again become the industry leader in early childhood development -- and improving its price/value proposition in global markets.

We've called Hot Wheels our sleeping giant. And in 2015, we began to unlock more of the brand's potential. The results: one of Hot Wheels's strongest years ever, with positive double-digit POS and shipping in both the quarter and for the year. Strength in the core vehicle and track set business was complemented by successful execution of the brand's Star Wars license, which also demonstrated the versatility of the brand to incorporate a wide range of IP. We intend to capture much more of Hot Wheels's untapped potential going forward, building it out as another exciting platform for more purposeful play.

Now, while we had great success with most of our core brands this holiday, Monster High and American Girl, as Chris indicated, are challenging works in progress. While we worked to evolve Monster High into an evergreen property, the brand continued to struggle during the quarter. The executional challenges, excess retail inventory we faced coming into 2015, combined with increased competitive product launches impacted shelf space and performance.

While we did see some success with bold new executions, introducing new scales and form factors, they just couldn't overcome the headwinds. That said, Monster High remained a top-five doll property globally; and with about $330 million in gross sales, consumer engagement with the brand remains strong. And while we have lots of work to do, we are determined to find opportunity with a new generation of consumers as we work to solidify the brand's base in 2016.

American Girl was a disappointment this holiday season. Our efforts to reenergize the foundation of the American Girl brand, BeForever, were successful. But our Girl of the Year and our Truly Me relaunch did not drive the expected direct and retail traffic. As we take steps to revitalize this brand, we recognize there are some price/value issues that need to be addressed. We also need to improve distribution and expand consumer engagement. You could see evidence that these initiatives are underway in our recent multiyear deal with Amazon Studios to develop live-action specials and episodic content based on the American Girl characters, with the first special to be released this year.

Beyond our core brands, we also saw healthy momentum from MEGA, where fourth-quarter gross sales were up 11%, led by international expansion, which saw a 40% increase in gross sales in the quarter.

We've repeatedly mentioned how we are transforming Mattel's culture with a focus on innovation, speed and accountability. The embrace of innovation has been particularly strong and is evidenced in both our day-to-day perspective and breakthrough new products -- several of which drove valuable buzz and traffic for us in the quarter. The New York Times said Hello Barbie is leading a new generation of AI toys, and it was certainly one of the most talked-about toys of 2015. Both Hello Barbie and the relaunched View-Master, using Google virtual reality technology, were well received in the market.

These innovative creations also demonstrated, both inside and outside Mattel, a new willingness and an ability to invent big, partner effectively with Silicon Valley, and get to market fast. In addition to building on these technology platforms in 2016, we will also begin to activate our relationship with Autodesk, and you will see an exciting new statement at Toy Fair.

To enhance our new perspective on innovation and technology, we have recently acquired new capabilities and brands to accelerate our competitiveness. Sproutling, a smart technology company that recently became part of the Mattel family of companies, provides us with a new product offering and technology platform. And we just closed the deal to acquire assets of Fuhu, giving us both proven technology and access to their extremely talented people. Unique technology and expertise from both of these companies will be part of our initiatives to build out digital platforms, increase our consumer engagement, and develop a new generation of digital toys.

Another area where innovation is proving transformative is our content strategy, reflected in several DVDs' successful releases, stronger media engagement, and exclusive content via Netflix and YouTube Kids. A critical step in our new focus on content was to bring in a proven talent in the field to lead our consolidated content creative and distribution capabilities, which we did in the quarter. And we continue to strengthen our content pipeline and resources.

In addition to the new Amazon studio partnership with American Girl, we recently signed new content deals with 9 Story to relaunch the iconic brands Barney & Friends and Angelina Ballerina. We also announced a new partnership with DHX to jointly develop and distribute Bob the Builder, Fireman Sam, Little People, and Polly Pocket content across multiple platforms.

In the important area of entertainment licensing, Mattel is proud to partner with some of the most iconic licenses in the market. We did a great job executing the last holiday season of our Disney Princess license. Not surprisingly, sales were down in the quarter as Frozen POS continued to soften. But gross sales for the full year were about $450 million.

As we have all known for some time, the end of this license creates significant challenges for us in 2016, but we have a number of important initiatives coming online to fill this gap. A growing pipeline of Disney licenses is evidence that our relationship with Disney is strengthening. Not only can we point to the significant results generated by innovative and popular Star Wars products from Hot Wheels; we are pleased to be awarded the license for Toy Story 4, a major new film in the beloved global franchise to be released in 2018.

Equally exciting was last week's announcement that we have been awarded the coveted Cars 3 license, with this major feature film scheduled for global release in 2017. The Cars franchise is one of the most successful in Pixar history and a very successful one for us year to year. Our Cars license has had shelf presence since its inception in 2006. And with the potential to deliver $350 million of incremental gross sales in a movie year, we are looking forward to our best Cars years ever in 2017.

Another long-standing partnership enjoying resurgence is Warner Brothers. We are already shipping product in support of the upcoming Batman v Superman: Dawn of Justice movie coming in March, and we look forward to partnering with Warner Brothers in their exciting new multiyear plan to build out their DC Comics universe. We are already an important part of the DC Superhero Girls launch, with product launching later this year. Licensing is strategically important to our transformation and our business overall, and as we continue to deepen our partnerships and build our entertainment licensing capabilities, you will see much more from us in this area.

I've mentioned our determination to strategically align powerful brand positioning, improve trade promotions, and create more motivating marketing to drive retail performance. Retail execution is an area where we have underperformed in the past, but where the strategic course corrections of 2015 are proving to be very effective in the market.

In Q4 we demonstrated a marked improvement in the effectiveness of our global retail execution with an enhanced presence during Black Friday and Cyber Monday that drove momentum throughout the holiday season. The bottom line: we grew our business with all of our top US brick-and-mortar customers in Q4 by demonstrating our commitment to work with them to deliver what they need to be successful, and to end the year relatively clean at retail. We also grew our overall e-comm business, and we'll continue to build on the strong momentum and gain back shelf space -- be it real or virtual -- in 2016.

Like Chris, I am very pleased with the Company's performance this last holiday season and proud of the progress made throughout 2015 to stabilize the business and reset Mattel's culture. And while there's much yet to do, we have already initiated plans to offset the challenges inherent in 2016.

Even more importantly, our progress to date has generated strong momentum to build on, positioning us for growth and greater profitability in 2017 and beyond. I look forward to sharing our newest creations with many of you at Toy Fair in just a few weeks.

And now I'd like to turn the call over to Kevin Farr. Kevin?

Kevin Farr *- Mattel, Inc. - CFO*

Thank you, Richard; and good afternoon, everyone. Echoing what Chris and Richard said, I'm also very pleased with the progress we have made in 2015. Despite significant challenges and through tremendous efforts across the organization, we achieved our full-year financial outlook, which included a stabilization of net revenues in constant currency; gross margins of about 50%; a decline in adjusted SG&A in absolute dollars; and year-end cash of $800 million to $1 billion.

We continue to be disciplined in our management of the P&L, with a large part of our success due to our cost savings efforts. For the full year we overdelivered against our 2015 target, with total gross savings of $153 million as well as nice leverage on our advertising spend in the fourth quarter.

Today, I want to quickly highlight our 2015 performance metrics and then focus on our expectations for 2016. As a reminder, I'll be discussing our top-line results in constant currency. In addition, I will be referring to adjusted financial measures that exclude certain items related to our acquisition of MEGA as well as severance expense, unless otherwise noted, to provide better visibility into the underlying business performance as we continue to execute the turnaround.

So as it relates to our 2015 performance, we achieved our objective to stabilize net revenues with full-year sales of $5.7 billion, up 2% in constant currency. This included growth of 7% in the fourth quarter as we began to see the expected inflection of shipping and POS for our key core brands. However, the foreign exchange headwind did lessen slightly in the quarter, but was still significant, reducing net revenues by about $140 million or about $400 million for the full year. This was at the high end of our revised 5% to 7% outlook that we provided last quarter.

Looking at the results regionally, Asia-Pacific remained our strongest growth market for the quarter and full year. China led the region, where increased investments are continuing to pay off, in addition to solid growth in Australia. As you heard from both Chris and Richard, our North American region had a good quarter, where we made great strides in commercial execution and saw tangible improvement in both POS and shipping.

We also saw continued strong growth in Russia, but this was offset by softness in Western Europe. And as we have worked hard to mitigate volatility in Latin America, driven by good performances in Mexico as well as other small markets, these results were offset by sharp declines in Brazil against a challenging macroeconomic backdrop and a more competitive toy market.

Looking beyond the top line to our other key P&L drivers, sales adjustments were down in both nominal dollars and as a percentage of sales in the quarter. Sales adjustments for the quarter were more closely aligned with our long-term averages for the full year. We attribute much of the increase to better-aligned retail promotional programs that were in place throughout the year, which contributed to strong holiday POS trends and less-than-expected in-season discounting to drive POS.

With respect to retail inventories, you know we entered the holiday season relatively clean around the world and are exiting in a similar position, including a roughly 10% decline in the US. International retail inventories are roughly flat with increases in growing markets, like China and Russia, offset by declines in most mature markets. And while retail inventories are somewhat elevated in Brazil, I'm happy to note that overall international inventories are the cleanest they've been in the last three years.

We also saw very strong results with our Funding Our Future cost savings program, which exceeded our expectations for 2015. Specifically, we delivered $60 million of gross savings in the quarter and $153 million for the year. This savings was roughly split evenly between gross margin and SG&A and other. These savings were an important element of delivering an adjusted gross margin for the quarter of 50.2%, resulting in full-year gross margins of 49.2%.

While consistent with our long-term objective of about 50%, the negative impact of foreign exchange was bigger than anticipated, including roughly 200 basis points for the quarter and about 100 basis points for the full year. This was largely due to further strengthening of the US dollar against the euro, Mexican peso, Brazilian real, and Russian ruble.

Our advertising was lower in both absolute dollars and as a percentage of net sales in the fourth quarter. As you know, we increased advertising spending throughout the year to support our core brands, which helped continue to generate a nice lift in POS and drove stronger shipping in the holiday season.

For both the quarter and year, foreign exchange was also a factor in lower nominal levels of spend since international media buys were cheaper in US dollars. SG&A was also down versus the prior year in absolute dollars on both a reported basis and adjusted basis, as we aggressively reduced overhead costs while balancing strategic investments.

Similar to advertising, the stronger dollar led to favorability in nominal SG&A due to lower operational costs overseas. The decline in adjusted SG&A of $69 million for the full year is below the outlook of $80 million to $95 million we provided last quarter, which is due to higher incentive expense of $50 million versus $25 million in 2004 [**Correction**: Mr. Farr was referring to 2014], since sales ended even stronger than we expected in the fourth quarter as POS accelerated.

And given that we are a pay-for-performance company, we rewarded our people for delivering on the turnaround in 2015, consistent with the incentive plan goals established at the beginning of the year. It's worth noting while the $50 million of incentive compensation for the full year is higher than we expected heading into the quarter, it remains below our targeted payout level of $80 million to $90 million.

Our tax rate for the full year was 20.4%, including discrete tax items, which was consistent with our tax rate outlook of 20% to 21% that we gave you in April. Adjusted EPS, including discrete tax items, for the quarter was $0.67 and $1.31 for the year compared to the prior year of $0.49 and $1.71, respectively.

Currency had a negative impact of $0.18 per share in the quarter and $0.41 per share for the year. Similar to the negative impact on sales and gross margin, this is higher than expected, as the US dollar continued to strengthen against key currencies in the quarter.

Turning to our balance sheet and cash flow, we ended the year with $893 million of cash. This strong cash generation was achieved primarily through tightly managing working capital. Not surprisingly, receivables were up with improving sales and the fact that sales came later in the fourth quarter, which we'll collect in the first quarter of 2016.

And owned inventory was up slightly, as we position the business to support improving POS trends heading into 2016. And, importantly, our current level of owned inventory is also of better quality than the last couple of years, since we achieved our fourth-quarter sales objectives in 2015.

We also continued our efforts around extending key vendor terms to match industry norms as well as emphasizing even greater overall discipline in accounts payable management. And we continued to reward our shareholders by deploying capital in a disciplined manner and protecting the dividend. As we've said, dividends remain our first priority after reinvesting in the business. And the Board declared a first-quarter dividend of $0.38 per share, which is flat compared to the first quarter of 2015.

Moving to our 2016 outlook, we'll provide greater detail on the key top-line and P&L drivers at Toy Fair. But based upon our 2015 results, I want to provide some context for how we see 2016 shaping up. As Chris and Richard said, we believe that we can fill a significant portion of the Disney Princess revenue gap and offset continued softness in Monster High and AG. The goal is to hold top line relatively flat in constant currency; but we do expect a more challenging first half of the year, primarily due to Disney Princess comps, with improving trends in the second half as a number of our incremental revenue initiatives, like DC Superhero Girls, begin to accelerate.

Specifically, in the first quarter we expect sales to be down slightly in constant currency and more so, as reported, due to foreign exchange headwinds. Continued momentum in core brands and a limited slate of new product launches may not fully offset the loss of Disney Princess in the first quarter, which represented about 10% of our total gross sales in the prior period. We expect the Disney Princess headwind to moderate in the second half of the year due to the seasonality of our business.

We also expect a continued unfavorable ForEx impact for the year. We estimate that currency will impact net revenues by approximately 2% to 4% and adjusted EPS by $0.30 to $0.40 per share. The EPS impact is primarily due to continued volatility in key currencies, particularly in Europe and our growing emerging markets, like Mexico, Brazil, and Russia; as well as more challenging hedging economics for the euro in 2016 versus 2015.

Consistent with our long-term objective, we expect to again be at about 50% margins for gross margins. Our cost savings initiatives and favorable commodity trends should help offset significant labor inflation, foreign exchange headwinds, mix, and ongoing efforts to sharpen our price/value propositions in support of the turnaround.

For advertising, we're looking to move somewhat closer to the midpoint of the range on our 11% to 13% long-term objective than we achieved in 2015. And we'll also remain very disciplined on SG&A. We've targeted adjusted SG&A to be down $55 million to $65 million versus 2015 adjusted SG&A.

Funding Our Future cost-saving initiatives plus incremental saving opportunities will be partially offset by investments to grow the business, modest inflation in employee costs, and increased incentive expense. It's worth noting that SG&A as reported should be down even more. This is due to reduced MEGA integration and amortization expenses as well as lower incentive [**Correction:** Mr. Farr was referring to lower severance] and restructuring expenses, which are excluded from adjusted SG&A.

As it relates to the Funding Our Future program, having exceeded our first-year objective, we continue to expect to deliver cost savings at the high end of the $250 million to $300 million range by the end of 2016. We have also identified incremental cost savings opportunities in both gross margin and SG&A that we are actively pursuing. And finally, assuming no changes in current tax laws, we expect our tax rate to be around 21% for 2016 and beyond, including discrete tax items.

Turning to the balance sheet and cash flow outlook, we will continue to manage working capital tightly. We expect CapEx of $270 million to $280 million, driven by investments in our global supply chain to support expansion of our diecast car capacity, automation, and other cost savings initiatives.

And, currently, we fully expect to generate the cash flow in 2016 and beyond to invest in our business and fund the dividend while targeting $800 million to $1 billion in year-end cash. That said, our Board has final decision on the dividend, and it reviews the dividend on a quarterly basis.

Looking beyond 2016 into 2017, we have greater confidence that we can achieve meaningful operating leverage through a combination of continued momentum in core brands, both domestically and in key international markets; a strong revenue tailwind from the theatrical release of Cars 3 in 2017; a return to more normal levels of P&L investments in sales adjustments and advertising; and line of sight into additional cost savings programs above and beyond our current programs.

In closing, we told you last year that our challenges were grounded in execution. We believe that the results you see today reflect significant progress against those challenges as well as a solid foundation to build on going forward. And while there's more work ahead of us, we remain committed to turning around our top line while maintaining our financial discipline. And we see a clear path to approaching our long-term operating margin objective of 15% to 20% as early as 2017. We remain firmly committed to delivering long-term value to our shareholders.

And with that, we'll now open up the call for questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions) Tim Conder, Wells Fargo Securities.

Tim Conder - ***Wells Fargo Securities, LLC - Analyst***

Thank you, gentlemen, and congrats on getting everything stabilized and for the detail here that you've given today. A couple things here -- and, not surprising, let's start with Disney Princess. Can you maybe give us a little more color on how you define significant?

And then, as it relates to margin there, I think previously you mentioned that the Disney Princess margin that you get approximated the Company operating margin. Is there a potential as you replace those dollars that the margin mix could be higher than what we've seen with Disney Princess? That's my first question.

And then, any color that you can give us on Hot Wheels? How much of the growth was core Hot Wheels and how much was Star Wars-related, both at POS and wholesale?

Chris Sinclair - ***Mattel, Inc. - Chairman and CEO***

Hi, Tim. I'll deflect Hot Wheels to Richard, but let me start. I think I understood your first question on Disney Princess when you say: what we mean by a significant amount? I think the way to look at this is our goal is to get a top line that's relatively flat and in constant currency, which says, obviously, we expect to cover pretty much the whole thing and still cover some of the issues we've got on Monster High. So that's what we're tracking to.

I think what Kevin tried to set up was there's a higher percentage of the mix related to Disney Princess in the first and second quarter. So it makes the challenge, obviously, a little bit harder as we enter the year. But broadly, we feel pretty good that we have the programs in place to hold the top line flat.

And on the margins, we don't expect really much change in mix in this coming year. I think it's pretty much on balance with the loss of Disney and some of the other things we've got on our core brands. So I wouldn't expect an up or down either way on that one.

Do you want to take Hot Wheels?

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

Yes. Tim, as it relates to Hot Wheels, I mentioned it had one of its best years ever. And it was the strongest of our core brand growth in 2015. Both the core, basic car business and the licensed property business -- of course, Star Wars being the hero for 2015 -- were up. Clearly significant growth from the licensing business within it, but really nice, steady growth within Hot Wheels core.

We continue to look to leverage the POS momentum and build upon the core business -- basic track sets and a variety of exciting new initiatives -- as well as expand the licensing portfolio. I think Star Wars really proved that we can incorporate really innovative new ways of thinking about licensing as part of the diecast platform. And we're going to look to new product drivers in entertainment -- Batman v Superman; Captain America; and, of course, continue with Star Wars.

Tim Conder - ***Wells Fargo Securities, LLC - Analyst***

Okay. And then on your structure changes and your key hires, I think on the last call you said you had -- the main key position left to fill was a head of e-commerce. I haven't seen any press releases there. Just other than that, are those changes pretty well done?

And then last question, for Kevin: on cash flow, would we anticipate the biggest swings, Kevin, in both EPS and working capital for 2016 year-over-year?

Chris Sinclair - ***Mattel, Inc. - Chairman and CEO***

Jeff, I'll deflect it over to Kevin; but, yes, we did hire a head of e-commerce. And we have now got him underneath one of our very senior executives, driving all of our technology and e-commerce platforms.

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

With regard to cash flow, as expected, we generated strong cash flow in the fourth quarter of 2015 of $957 million [**Clarification**: Mrs. Farr was referring to Cash from Operations**]**. And most of that related to -- we tightly managed capital, as receivables were up in improving sales and came later in the fourth quarter, which we're going to collect in 2016. And owned inventory was up slightly, as our sales mix in 2015 shifted from direct import to trade sales, which require us to hold the inventory longer. And really, we don't expect much of a shift in our DI trade sales mix since 2016.

So we continue to -- again, next year we expect to generate strong and consistent cash flow in 2016 and beyond. And we think we'll have the amount to fund our business and fund the dividend while targeting $800 million to $1 billion of year-end cash. And we're going to continue to focus in on opportunities to manage working capital, both with sales as well as with vendor terms and accounts payable management.

Tim Conder *- Wells Fargo Securities, LLC - Analyst*

Okay, great. Thank you, gentlemen.

Operator

Gerrick Johnson, BMO Capital.

Gerrick Johnson *- BMO Capital Markets - Analyst*

Two questions -- first, how much longer do we expect to be recording both MEGA integration and FOF severance charges?

And then, second, on Barbie, there's a dramatic difference between results in North America and international. Why the big disparity? It looked like we had an easy comp in international. Thanks.

Kevin Farr *- Mattel, Inc. - CFO*

Yes, I think the MEGA expenses are going down this year with regard to not much integration. There's still a bit of amortization, but I think after this year both of those are eliminated. We do continue to look at opportunities to streamline our business and look at opportunities to be more efficient and effective.

So I think severance won't be as high as it was in 2015. It will be lower, as I mentioned in my remarks; and we will have some restructuring expenses as we look at, again, the back of the house, and trying to streamline that business and be more efficient and save costs.

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

Yes, Gerrick, and as it relates to Barbie, we did obviously have a terrific quarter here in the US, with double-digit POS performance. But we also saw positive POS in the international markets, giving us again solid momentum moving into 2016.

You know, looking ahead, we continue to see opportunity, particularly in international, where POS and shipping can align more effectively. It's also important to note a lot of the heavy lift we were able to activate in a much quicker and more strategic way in the US.

We obviously launched and relaunched marketing; we changed our creative execution; we introduced new segments, of course, and reinforced the You Can Be Anything campaign. We were able to really execute that with more speed and effectiveness in the US. But I'm very confident that the international group, particularly with the recent POS, will continue that momentum moving into 2016.

Gerrick Johnson *- BMO Capital Markets - Analyst*

Got it. Thank you.

Operator

Taposh Bari, Goldman Sachs.

Taposh Bari *- Goldman Sachs - Analyst*

Good afternoon and great progress. Chris, I guess just to get the dividend question out of the way: you're keeping the dividend flat; you've declared the first quarter. You just completed your largest cash flow quarter of 2015. At this juncture what would it take for you to revisit your dividend strategy over the next 12 months? And how should we think about the timing around cash flows?

Chris Sinclair *- Mattel, Inc. - Chairman and CEO*

Always good to talk to you, Taposh. Look, we've been consistent on this. We see this is our top priority right now, short of anything major, as a disruption of the business or something major on the investment front -- which, frankly, we don't expect at this point. We stress tested this pretty carefully. As we go through 2016, we feel comfortable that we can meet the targets Kevin talked about on cash and still support the dividend.

Importantly, I've said, as we exit this year again into next year, we would expect to start to grow into a little bit more of a normative dividend yield as we improve performance. And that's very much in our target range. So right now, Taposh, I don't see anything changing on the dividend.

Taposh Bari *- Goldman Sachs - Analyst*

Great. And then I wanted to ask a follow-up on the new Barbie news from last week. Can you maybe, Richard, talk to us about what kind of feedback you're getting from retailers? And also holistically, across the portfolio, shelf space -- how much you lost last year, and how you're thinking about shelf space into 2016?

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

Sure. You know, we constantly test and gauge both our consumers and moms, and our research is continuing to show the brand's relevance. And interest among moms and girls has been improving. We know it's been improving as a result off of the effective marketing PR and various programs that we've been initiating.

I think we started that real initiation with our 23 new ethnicities as part of the Fashionista collection and really drove that point of difference with new choice and diversity for Barbie. We did very well; and, more importantly, we created a lot of goodwill for the brand, encouraging us to continue down the strategic path of diversity and choice for the brand with its most recent launch, again, as you've seen.

The halo effect of this over the whole brand is something that we are watching and watching play out pretty carefully. Retailers are very excited with the changes that they see on the line, both from a marketing perspective as well as product. And there's a lot of product initiatives, new innovation, price/value -- a lot of structural execution points that we're not talking about on this call that took place with Barbie as well.

So we are feeling very good about the changes that we made and obviously executing against them at retail more effectively. And we expect that that momentum will continue through 2016.

Chris Sinclair *- Mattel, Inc. - Chairman and CEO*

On your question on space, Taposh, I think we've said before, we probably lost 15% to 20% over the course of the last 12 to 18 months. Part of what we're seeing is enough velocity now and turn on that current shelf space that we, frankly, would expect to see this move in the other direction as we get into the fall set. So it was significant. And a lot of what we were able to do to offset that, I think, is pretty stellar as we came through the fourth quarter.

Taposh Bari *- Goldman Sachs - Analyst*

Great. Congrats again, and we'll see you next week.

Chris Sinclair *- Mattel, Inc. - Chairman and CEO*

You bet.

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

Thank you.

Operator

Mike Swartz, SunTrust.

Mike Swartz - ***SunTrust Robinson Humphrey - Analyst***

I just wanted to follow up on some of the commentary I guess Richard made regarding the American Girls brand. Just trying to understand what's going on with that brand. It sounds like -- you had mentioned a kind of value proposition that needs recalibrated.

But is there anything you're seeing in terms of -- I mean, last holiday season you'd pointed out that you think there was little bit of cannibalization from Frozen. Obviously we didn't really have that this year. Do you think there's any impact with the growth you're seeing in Barbie on American Girl?

Chris Sinclair - ***Mattel, Inc. - Chairman and CEO***

I'll start it, then let Richard jump in. Look, I don't think that was really the big factor. I think we have felt for the last few months that we're not doing what we need to be doing to get the brand's salience up. It's a combination of our content, the distribution of that content, and price/value. And we've allowed price value and the total value proposition to shift. And I think that hurt us in the quarter.

As you know, there's been a fair amount of private-label stuff out there at retail that actually competes directly with AG. So we have restructured things as we go into 2016. I think we feel a lot better about the line. We've got a lower price segment we are doing. I think Amazon, with the studio launch, will help us on the content front.

And we're going to be doing some interesting things on distribution to extend both our consumer reach as well as our availability. So we think this is imminently fixable. We were just a little slow off the mark this year.

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

There's not much I could add to what Chris is saying. I think that he articulated it perfectly. And I think the efforts that we are doing to re-energize consumer engagement through content, and in particular with this new deal with Amazon Studios, is really a very big and exciting long-term effort -- by the way, both for Amazon and for American Girl. We're talking about specials and episodic content based on our brand's characters. And the first special will be released in 2016. So we are looking forward to energizing the brand through that, and that is one dimension, as Chris mentioned.

Mike Swartz - ***SunTrust Robinson Humphrey - Analyst***

Thanks. And Kevin, in your commentary, did you make note of what you expected the gross to net adjustments to be in 2016? I know they've been running a little higher the last two years, but should we see more of a kind of historical level going forward?

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

Well, I think what I -- I didn't mention 2016. I see 2016 being higher than the historical, as we really want to make sure we've got the powder in our gun to, again, promote to the extent we need to to drive POS in the current year.

But I did say we think we'll get to more normal historical levels in 2017, as we look to get some operating leverage. And we've got tailwinds in revenues, both behind our core brands and the Cars 3 movie, of incremental $350 million of sales in 2017. So back to more historical levels in both sales adjustments and advertising in 2017.

Mike Swartz - ***SunTrust Robinson Humphrey - Analyst***

Thanks a lot.

Operator

Felicia Hendrix, Barclays.

Felicia Hendrix - ***Barclays Capital - Analyst***

Kevin, just wanted to clarify something. When you were going through your long-term goals at the end of the prepared remarks, on the operating margin goal of 15% to 20%, did you say that that would be something you could achieve by 2017?

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

Well, we said we should be approaching that range as early as 2017.

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay. So that's a big bridge to gap between now and then, but all the initiatives that you talked about should get you pretty close to there.

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

Yes, that's what our thought process is. I think a major component of that is the incremental revenues that we expect to generate in 2017 from Cars 3 will put a lot of leverage on our infrastructure, as well as the continued momentum in our core brands. And we expect to continue to gain traction in emerging markets.

So top line is part of the story, but we're also going to be leaning into costs in 2016 in the supply chain and SG&A. And that will continue also into 2017.

Felicia Hendrix - ***Barclays Capital - Analyst***

Great. And then I totally understand the excitement of Cars 3. I've been with you through the first two Cars movies. But when you think about Cars 3 in 2017; and then, obviously, even though it's a evergreen property, 2018, you have kind of rolling off. So as we think about a longer-term pipeline, how should we think about that?

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

I would think 2018, you'd look to Toy Story 4 which is great toyetic property. So we see that. And we're working on a whole bunch of other things with regard to licensing -- as well as, I think, it's continued emerging market growth, particularly in Asia Pac.

Chris Sinclair - ***Mattel, Inc. - Chairman and CEO***

And I would say, Felicia, we're working pretty closely with Disney on how to ensure we don't just have a huge spike and drop-off. I think we have the same objective, to kind of keep momentum going in the year two. So that's part of both of our plans.

Felicia Hendrix - ***Barclays Capital - Analyst***

Great. And then as you think about the -- I was just wondering, as you think about all your goals, is Fuhu revenues in any of that? Or how should we think about that?

Chris Sinclair - ***Mattel, Inc. - Chairman and CEO***

We actually haven't rolled much of Fuhu in. It's not a huge business at this point, so I wouldn't look to anything major there in the short-term. It's really more of a platform that we want to build into some of our Fisher-Price and technology-driven toys. So there will be some, which we'll illuminate on, Felicia, but not a huge amount.

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay, great. Helpful. Final -- just, Kevin, we get asked about this all the time. Obviously, the lower commodity costs helped gross margins in the quarter. Going forward, how should we think about that benefit?

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

Yes, I think with regard to commodities like oil, we expect to see a benefit in resins and logistics. And that's really a tailwind. I think what we'll also have is, again, a headwind with regard to -- direct labor costs remain inflationary as well as packaging. But overall, when you look at our gross margins, we're targeting 50%, to be around there in 2016, and that reflects additional headwinds with regard to ForEx. But a tailwind is our aggressive cost savings programs in 2016. So when it all mixes together, I think we're looking to again be around 50% next year [2016].

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay, great. Thank you so much.

Operator

Linda Bolton Weiser, B. Riley.

Linda Bolton Weiser - ***B. Riley & Co. - Analyst***

With regard to the DC Superhero Girls line, is that scheduled for a second- or a third-quarter shipment? And can you talk a little bit about -- do you view that as being sort of incremental to other types of action or fashion doll type of things? And what kind of positioning will you expect to get on the store shelves for that line? Thanks.

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

Linda, it's Richard. The shipments for that will be in the second and third quarter. That will be the bulk of, obviously, the product flow. And we believe that the aesthetic, the feature, the look, the content, the research all suggest that, while action figures and fashion dolls are out there, this will visibly look and feel different than everything else.

It will also obviously have a tremendous amount of content associated with it, defining characters and defining a real action-oriented girl proposition, which we think is really timed well with the girl-empowerment trend that's happening. And certainly, as a new brand executed by Mattel globally, we'll get the full power of our execution skill set.

Space will be concurrent with the excitement by retailer. So it varies by retailer, but obviously we are getting great support from retailers. They are excited about the brand, and we believe that this is a great proposition for a long-term growth strategy in girls.

Linda Bolton Weiser - ***B. Riley & Co. - Analyst***

Great. And then on American Girl, you talked a little about that. I think it one point you mentioned potentially looking at expanded distribution. Could you give a little more color? Are you talking about experimenting at regular retail, or what you talking about exactly? Thanks.

Chris Sinclair - ***Mattel, Inc. - Chairman and CEO***

We'll probably have more to talk about that, Linda, at Toy Fair. But we are looking at specialty retail and other opportunities to extend distribution. We've done some testing and some changes this past year that were quite successful. So we would expect to extend that.

There will probably also be some of our line that will be handled with Amazon. So I would think you'll have a lot more availability points than we've had this year.

Linda Bolton Weiser *- B. Riley & Co. - Analyst*

Okay, great. Thanks a lot.

Martin Gilkes *- Mattel, Inc. - VP, Corporate Strategy and IR*

Operator, I think we have time for one final question.

Operator

Greg Badishkanian, Citi.

Greg Badishkanian *- Citigroup - Analyst*

So just looking at your flat sales target for 2016, which offsets the loss of Disney, and -- which categories or brands do you think you'll see the greatest accelerated growth in 2016 versus that 2015 trend to bridge the gap -- which, if you could do that, I think that would be very encouraging. But where do you think you'd get that?

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

Greg, it's Richard. We've obviously got a lot of initiatives in play in 2016, and we believe many of them get traction. But clearly, the emphasis is going to be on core brand momentum. That is a paramount continuing strategy and priority for us going forward.

I think we have proven stability in most of our core brands for 2015, leading us to believe we are certainly on the right track and, in fact, can dial up some of the methodologies that have been working. At the same time, we continue to look to stabilize Monster High and obviously regain some traction on American Girl. Notwithstanding that, we're pretty excited about some the new licenses that we have.

I mean, clearly, the Warner Brothers relationship is becoming more and more important. And we've got a great new girl initiative coming out. We've got obviously the Batman v Superman, and the trilogy of movies going forward, well into 2017 and 2018.

You know, the MEGA business for us, which we haven't talked a lot about, is strong, and leveraging the platform itself, and attracting new partners. Clearly, we are launching the Teenage Mutant Ninja Turtle license, which is going to be a terrific sleeper for us as well in a movie year. So we know that that's going to prove itself out.

We've got some great new content partnerships that we've discussed that will both fuel core brands, as well as some new that you'll hear about at Toy Fair. And last but not least, there's some really exciting programs in emerging markets, where we continue to grow -- as these statistics show -- but with even more fuel, if you will, to provide the right tools and the right product and the right content to help execute and grow market share in those areas. So on balance, we believe we've got a good, robust program to significantly charge ourselves with covering that gap.

Greg Badishkanian *- Citigroup - Analyst*

Good. And then with the Barbie news, who do you think that's going to take share from? Obviously, it might cannibalize little bit of your existing Barbie sales, but it should expand that brand. And who do you think is going to -- who will contribute to that share?

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

I think our mindset is Barbie is owed business, and that brand has the capability to do a lot more than it has. We've proven it over the years. I think people are starting to understand that it is part of pop culture. And I think that as -- you know, there are always girl brands that come and go.

I think Shopkins was a great surprise, I think, in 2015. But these girl brands tend to have bell curves, and Barbie is and has been a sustainable brand for almost 57 years. And I think at this point we are well on our way to solidifying our positioning, expressing new marketing, innovating new product, and executing flawlessly. So I would expect continued emphasis and growth on the Barbie brand moving forward.

Greg Badishkanian *- Citigroup - Analyst*

Good. And finally, just as you enter the new year with clean inventories down 10% in the US, is it reasonable to assume that retail sales growth will equal shipment growth throughout 2016? Or is that the right way to think about it?

Chris Sinclair *- Mattel, Inc. - Chairman and CEO*

I think, Greg, that is a good way to think about it. We think we are pretty much in balance right now. And you'll get some pockets, obviously, in a few international markets. But, yes, I think shipping and POS should be tracking pretty closely.

Kevin Farr *- Mattel, Inc. - CFO*

Yes, I think that's particularly true because we're not losing shelf space; we're hopefully gaining shelf space in the fall. So it should be much more aligned this year.

Greg Badishkanian *- Citigroup - Analyst*

Great. And it was good to see the improvement this quarter. Thank you.

Chris Sinclair *- Mattel, Inc. - Chairman and CEO*

Thanks, Greg.

Martin Gilkes *- Mattel, Inc. - VP, Corporate Strategy and IR*

There will be a replay of this call available beginning at 8 PM Eastern Time today. The number to call for the replay is 404-537-3406 and the passcode is 15869072. Thank you for participating in today's call.

Operator

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

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