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MAT.OQ - Q1 2024 Mattel Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mattel's First Quarter 2024 Earnings Conference Call. (Operator Instructions) I will now turn the conference over to David Zbojnowicz, Head of Investor Relations. David, you may begin your conference.

David Zbojnowicz - Mattel, Inc. - VP & Head of IR

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 first quarter 2024 financial results. We will begin today's call with Ynon and Anthony providing commentary on our results, after which we will provide some time for questions.

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

In addition, we present changes in gross billings, a key performance indicator. Please note that we may refer to gross billings as billings in our presentation, and that gross billings figures referenced on this call will be stated in constant currency unless stated otherwise. For today's presentation,

references to POS and consumer demand exclude the impact related to our Russia business, given our decision to pause all shipments into Russia in 2022.

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

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

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

We describe some of these uncertainties in the Risk Factors section of our 2023 Annual Report on Form 10-K, our earnings release and presentation and other filings we make with the SEC from time to time as well as in other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so, except as required by law.

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

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

Thank you for joining our first quarter 2024 earnings call. We're off to a good start for the year, with significant gross margin expansion, positive adjusted EBITDA, very strong improvement in free cash flow and are on track to achieve our full year guidance.

Looking at key financial metrics for the first quarter as compared to last year. Net sales declined 1% as reported and in constant currency, adjusted gross margin increased 830 basis points to 48.3%, adjusted EBITDA improved \$67 million from a negative \$14 million to a positive \$54 million, and free cash flow improved by \$254 million.

Gross billings increased in North America, Latin America and Asia Pacific, with a decline in EMEA.

Total company POS increased low single digits, with improving trends through the quarter and growth in Dolls, Vehicles, Games and Building Sets.

Mattel maintained share globally and gained share in its 3 leader categories: Dolls, Vehicles, and Infant, Toddler, and Preschool, as well as in Games, per Circana.

With our strong cash flow generation, we improved our financial position, ending the quarter with a cash balance of \$1.1 billion after repurchasing \$100 million of shares in the quarter. Consistent with our stated capital allocation priorities, we plan to continue share repurchases in 2024.

We believe the industry benefited in the first quarter from an early Easter. That said, this does not change our expectation that the toy industry will decline in 2024, although at a lesser rate than 2023. We expect to outpace the industry and gain market share in 2024.

We are executing our strategy to grow Mattel's IP-driven toy business and expand our entertainment offering.

We expect to continue benefiting from innovation across the toy portfolio and market share gains, meaningful progress on entertainment projects following the success of the Barbie movie, and greater efficiencies and productivity improvements with our Optimizing for Profitable Growth program, which is targeted to achieve \$200 million of annualized cost savings between 2024 and 2026.

On the toy side of the company, Barbie was the #1 Dolls property globally, and continued to gain significant share, per Circana. We kicked off Barbie's 65th anniversary celebration and are bringing new innovation to the brand such as the recently launched Mini BarbieLand segment. Hot Wheels led the Vehicles category, per Circana, with further expansion of its die-cast line and new offerings for Racerverse, RC, and Skate. Fisher-Price is launching its new Wood segment next month, and this week, we welcomed a new head of Fisher-Price based at our East Aurora, New York campus. Games performance was strong, and Uno was once again the #1 card game property, per Circana. Mattel Creations, our rapidly growing D2C channel serving adult collectors, is expanding fan engagement. We recently hosted Mattel Creations Revealed, a 2-day virtual fan event featuring 6 hours of exclusive behind-the-scenes content and nearly 100 new collectible toys and exclusive consumer products with multiple same-day sellouts.

We also made progress in capturing value of our IP outside the toy aisle. Following the successful award season for the Barbie movie, highlighted by Grammy, Golden Globe and Oscar wins, its cultural impact continues to reverberate around the world. The film is a showcase for our strategy, bringing together the global resonance of our brands, our ability to attract and collaborate with leading partners, and demand creation expertise. We continue to make meaningful progress advancing our theatrical slate of 15 announced films in development, with more news to share soon.

In television, Barbie & Stacie to the Rescue, an animated movie, launched globally on Netflix. Season 2 of Barbie: A Touch of Magic premiered last week. Hot Wheel's Let's Race, our new animated series, debuted on Netflix and became a top 10 program in 69 countries. In digital gaming, we announced a new licensing partnership with Take-Two Interactive to publish a new Barbie mobile game planned for release later this year. In location-based entertainment, we announced a second Mattel Adventure Park through our licensing partnership with Epic Resort Destinations, which is scheduled to open in Kansas City in 2026.

In closing, our first quarter performance was highlighted by significant margin expansion and very strong improvement in cash flow, with positive consumer demand and improving trends. Mattel is in the strongest financial position it has been in years, and we are on track to achieve our full year guidance. Beyond this year, we expect to grow sales and earnings in 2025. We are executing our strategy to grow our IP-driven toy business and expand our entertainment offering, and are well positioned to create long-term shareholder value.

And now I will turn the call over to Anthony.

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Thanks, Ynon. We achieved strong bottom line results in the quarter and are on track to meet our full year sales and earnings guidance.

Net sales of \$810 million declined 1% as reported and in constant currency. Adjusted gross margin increased by 830 basis points to 48.3%, benefiting from lower inventory management costs, cost deflation, and cost savings. Adjusted operating loss improved by \$63 million to a negative \$23 million, driven by gross margin expansion. Adjusted EPS was a negative \$0.05 compared to a negative \$0.24, an improvement of \$0.19; and adjusted EBITDA increased from a negative \$14 million to a positive \$54 million, gaining \$67 million.

Gross billings in constant currency declined 2%, reflecting retail inventory reductions. POS increased low single digits, with improving trends through the quarter.

Dolls declined 5%, with POS increasing high single digits. The gross billings decline was primarily due to Disney Princess and Disney Frozen, which had positive POS, but wrapped last year's inventory build supporting the launch. Barbie gross billings were comparable to the prior year, with POS declining low single digits. Trolls, Monster High and American Girl grew. Mattel was #1 in Dolls globally, gaining over 550 basis points of share in the category in Q1, and Barbie was the #1 property in Dolls and also gained share, per Circana.

Vehicles and Hot Wheels increased 4%. POS increased mid-single digits, with growth in consumer demand for each Hot Wheels, Matchbox and Disney Pixar Cars. Mattel was #1 in Vehicles globally, gained share in the category in Q1, and Hot Wheels was the #1 property in Vehicles, per Circana.

Moving to Infant, Toddler, and Preschool. As discussed in our recent investor presentation, we are segmenting the category into 3 parts. The first and by far the largest is Fisher-Price, the Power Brand, which includes the core Infant, Little People, and Newborn product, as well as the recently launched Fisher-Price Wood. The second is Preschool entertainment, which includes owned IP, such as Thomas and Barney, Imaginext, which is our own form factor for action figures specifically designed for young children, and Partner Brands. The third and by far the smallest is Baby Gear and Power Wheels, which we decided to strategically out-license or exit.

Total Infant, Toddler, and Preschool category declined 11%, with POS down high single digits. The gross billings decline was due primarily to Baby Gear and Power Wheels, which we have been out-licensing or exiting, and Preschool entertainment. Fisher-Price gross billings declined 1% due primarily to a decline in Infant, partly offset by the launch of Fisher-Price Wood. Importantly, Fisher-Price POS increased low single digits. Mattel was #1 in Infant, Toddler, and Preschool globally, gained share in the category in Q1 and Fisher-Price was the #1 property in Infant, Toddler, and Preschool, per Circana.

Challenger categories in aggregate were comparable to the prior year as growth in Games and Action Figures was offset by declines in Building Sets and Other. POS declined high single digits due to Action Figures, partly offset by double-digit growth in Games and Building Sets.

Looking at our first quarter performance by region. Gross billings in North America increased 1%, with significantly lower closeout sales in the quarter. POS increased low single digits. EMEA declined 13% due primarily to the impact of retail inventory reductions and weakening of the Turkish lira. POS increased mid-single digits. Latin America increased 1%. POS declined low single digits. Asia Pacific increased 15%, driven primarily by gains in Australia, New Zealand, and South Asia. POS declined low single digits.

As noted on our fourth quarter call, we entered 2024 with retail inventory levels slightly elevated. This has been largely corrected as we ended the first quarter with the retail inventory levels down high-single digits in both dollars and weeks of supply. The reduction, which occurred earlier than the prior year, had a negative impact on our first quarter sales performance, particularly in EMEA. We believe retail inventory levels are now at appropriate levels to support the business going forward.

Adjusted gross margin was 48.3% and compared to 40%, an increase of 830 basis points. The significant increase in gross margin was driven by several factors: lower inventory management costs, primarily obsolescence and closeouts, which contributed 230 basis points; cost deflation added 220 basis points; savings from the Optimizing for Profitable Growth program added 120 basis points; favorable mix contributed 80 basis points; and foreign currency favorability and other supply chain costs added 180 basis points.

Moving down to P&L. Advertising expenses declined by \$5 million to \$71 million, and adjusted SG&A increased by \$6 million or 2% to \$343 million. The increase in SG&A was primarily driven by market-related pay increases and investments partly offset by cost savings.

Adjusted operating loss improved \$63 million to a loss of \$23 million in the first quarter compared to a loss of \$87 million in the prior year, primarily driven by gross margin expansion. Adjusted EBITDA increased \$67 million to \$54 million, benefiting from the same factor.

Adjusted EPS improved \$0.19 to a loss of \$0.05 compared to a loss of \$0.24 in the prior year.

Cash from operations was a source of \$35 million in the first quarter compared to a use of \$206 million in the prior year, an improvement of \$242 million. The increase was primarily driven by improvements in both working capital performance and net income. Capital expenditures were \$30 million compared to \$43 million a year ago, and free cash flow was a source of \$5 million compared to a use of \$249 million in the prior year quarter.

On a trailing 12-month basis, we generated significant free cash flow of \$964 million compared to \$187 million in the prior year, an increase of \$777 million. The improvement was primarily driven by working capital performance, in part due to timing associated with seasonal working capital and incentive compensation payments.

Reflecting on our improved financial position and consistent with our stated capital allocation priorities, we repurchased an additional \$100 million of shares in the quarter, bringing total share repurchases since 2023 to \$303 million. We expect to make further share repurchases in 2024 under our \$1 billion multiyear share repurchase program.

Taking a look at the balance sheet. We finished the quarter with a cash balance of \$1.130 billion compared to \$462 million a year ago, an increase of \$669 million. The increase reflects free cash flow generated over the past 12 months, partly offset by the use of funds to repurchase shares. Total debt of \$2.33 billion is consistent with last year. Our debt portfolio is well positioned, with no maturity until 2026.

Accounts receivable were \$673 million, comparable to the prior year, and inventory was \$669 million, a reduction of \$292 million from the prior year and a significant contributor to our free cash flow performance. Our leverage ratio improved further. Debt to adjusted EBITDA finished the quarter at 2.3x compared to 2.9x in the same period a year ago. The improvement was driven by the increase in our trailing 12-month adjusted EBITDA performance.

We are realizing benefits from our recently announced Optimizing for Profitable Growth program, targeting \$200 million in cost savings by 2026. In the first quarter, we generated \$17 million of savings in aggregate, with \$9 million benefiting cost of goods sold and \$8 million in SG&A. We are on track to achieve our targeted 2024 savings of \$60 million.

We are reiterating our guidance for 2024, including net sales and constant currency to be comparable to the prior year; adjusted gross margin to be in the range of 48.5% to 49% compared to 47.5% in 2023; adjusted EBITDA to be in the range of \$975 million to \$1.025 billion compared to \$948 million in the prior year; adjusted EPS to grow double digits to a range of \$1.35 to \$1.45 compared to \$1.23 in 2023; and free cash flow generation of approximately \$500 million.

We are operating in a macroeconomic environment that may impact consumer demand. The guidance considers what the company is aware of today, but remains subject to market volatility, unexpected disruptions and other risks and uncertainties. In closing, we are off to a good start, with strong margin and cash flow performance, and are on track to achieve our full year guidance.

And now I will turn it over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Alex Perry from Bank of America.

Alexander Thomas Perry - *BofA Securities, Research Division - VP, Equity Research Analyst*

I guess just first, can you talk about how the point of sale sort of trended in the quarter versus your expectations? What do you think drove the acceleration as you move through the quarter? Do you think that was primarily the Easter shift? And then what is sort of the expectation for point-of-sale as we move through the year? Is it still flat, similar to your 4Q guide?

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

Sure, I can take that. And let me comment on the impact of the Easter holiday more broadly. First of all, the timing of Easter did not materially impact our year-on-year shipment in the first quarter. POS, as we said, for the total company was up low single digits in Q1, with improving trends as we moved through the quarter, including some likely benefit from the holiday timing.

When you isolate our holiday performance by looking at our POS for the last 6 weeks through mid-April, so that includes the Easter holiday in both periods, POS was positive, and year-to-date POS through that mid-April point is now comparable to last year. And looking ahead, and similar to last year, we expect our shipping trends in 2024 to align with the historical trends, which are about 1/3 of our gross billings in the first half and 2/3 in the second half.

Alexander Thomas Perry - BofA Securities, Research Division - VP, Equity Research Analyst

Perfect. And just my follow-up is, can you just talk a bit more about Hot Wheels and what's driving the growth there? Would you sort of expect that level of growth to continue as we move through the year?

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

Yes. Look, Hot Wheels has been just an incredible brand on a really great run. As you know, it's been growing now for 6 consecutive years and on track to grow again in 2024. The growth is driven by great product innovation. Die-cast is growing. We're expanding into adult collectors. We're broadening distribution. We are expanding into the adult collector segment, more lines such as RC and Skate, and more content coming on to Netflix. The new show, the new animated show on Netflix has been a top 10 program in 69 countries.

So we continue to create more engagement and apply the playbook, where we are bringing together brand purpose, consumer-centric innovation, cultural relevance and a very strong franchise mindset to continue to grow outside of the toy aisle. And this is before the movie is even out that we're developing with J.J. Abrams. And all of that led us up to the Vehicles category, which itself has been performing very strongly now for several years in a row, and another movie in development with Skydance for Matchbox. So just a great category where we continue to gain share and outperform over time, and expect that to continue.

Operator

Your next question comes from Arpine Kocharyan from UBS.

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

I wanted to go back to the Disney Princess dynamics a bit. I think you mentioned inventory correction impacting sales. Was there anything else that you would call out in terms of what drove that decline? And then I have a quick follow-up.

Anthony P. DiSilvestro - Mattel, Inc. - CFO

No, Arpine. It's primarily the wrap from the introduction last year, the pipeline fill. And importantly, the POS for the line is positive in the first quarter, and we're very, very optimistic about the future for that line.

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

That's helpful. And then I wanted to ask you, regarding buybacks, cash flow showed nice improvement for the quarter. Could you maybe walk us through what needs to happen for you to pull the trigger on being a bit more aggressive on buybacks? Is it really absence of M&A?

You've also talked about perhaps participating more in the economics of your theatrical slate. Do you have an update on that or anything specific you could share? What needs to happen for investors to see upside to buybacks here?

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Yes, we're not giving a specific guidance around our share repurchases, but I think it's -- it is that we continue to execute against our stated capital allocation priorities. And just quickly, they are first to invest to drive organic growth; second, to maintain an investment-grade rating and target 2 to 2.5x leverage; and the third, given our improved financial position, is to consider M&A and other corporate development opportunities; and fourth is share repurchases. And as you recall, we resumed repurchases last year in 2023. That was the first time since 2014, and we bought about \$200 million of our own stock.

And then coming into this year, given our improved financial position, confidence in our strategy to create value, we did announce a new \$1 billion program earlier this year. It's a multiyear program. And I think importantly, we expect to fund that with free cash flow. And again, we did \$100 million in the first quarter, and we'll continue to evaluate these capital allocation priorities. And between M&A and share repurchases, we continue to make those evaluations.

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

And Arpine, I would add that while M&A is, in terms of the allocation priorities, is ahead of share repurchases, we actually did spend more than \$300 million to buy our own stock rather than do an external acquisition. So we believe, given the share price of the Mattel stock, this is a very good opportunity for us to -- where we can invest in ourselves. And that is something we continue to evaluate as things evolve. But we do have the capacity, we have the cash, and we continue to focus on long-term value creation for our stakeholders.

Anthony P. DiSilvestro - Mattel, Inc. - CFO

And just to add one more point, Arpine, we did mention at our Investor Day that we will consider targeted investments in our entertainment verticals that accelerate the strategy and potentially capture a larger share of the upside.

Operator

Your next question comes from Drew Crum from Stifel.

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

Okay. So Anthony, just looking at adjusted gross margin closer and the various drivers behind the year-on-year improvement in 1Q, which would you expect to persist? Or which do you need to continue over the balance of the year in order to hit or outperform your guidance range for 2024?

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Yes. So let me comment on gross margin. Certainly, in the first quarter, we achieved significant gross margin expansion. We're up over 800 basis points, the 3 primary drivers being lower inventory management cost; cost deflation, that's principally ocean freight; and savings from our Optimizing for Profitable Growth program. Given that first quarter performance and our guidance, it does imply that the balance of the year will be about flat to last year, and there are a few puts and takes in that.

First, we expect to continue benefiting from cost savings and will also benefit from increased production levels. There's an absorption benefit as we wrap last year's reduction of owned inventory levels. And then going the other way, we'll wrap the Barbie movie benefit, and we would also expect to see some inflation as we wrap the decline in ocean freight, account for the situation in the Red Sea and some continued upward pressure on our wage rates. So that's kind of how we balance it for the balance of the year. And at this point, we are reiterating our full year guidance, which is to be around 48.5% to 49%, so up 100 to 150 basis points.

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

Got it. Okay. Very helpful. And then, Ynon, just any updated thoughts around your expectations for Barbie in 2024 with a quarter in the books?

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

Yes. Barbie is an incredible brand. It's never been more relevant or connected to pop culture than it is today. The movie definitely broadened the aperture and brought more demographics, broader audience and created more opportunities. And Barbie continued to gain significant share in the Doll category and overall in the industry.

We did -- as you know, we are celebrating the 65th anniversary for Barbie. We have multiple activations. We're launching 3 new segments that we talked about at Investor Day. We expect more shelf space in the second half. We are expanding into the adult collector line, targeting pop culture fans, all the kids and continue to cater to the core kids demographics with more content to Netflix, both the series and the movie on Netflix.

There's also the new mobile game that we are publishing or Take-Two is publishing as part of a relationship with us. So there's a lot going on around Barbie. We did say that Barbie will be marginally down for the year, given the incredible performance last year, but with the strength of the brand and all the various activations and all the new lines that we're launching and everything else around it, we expect it will continue to grow and go from strength to strength beyond '24.

And that's -- we've always said this is not about managing the brand quarter-by-quarter or even year-by-year. It's about long-term growth and expansion, and we just couldn't be more confident and proud of where Barbie is today and where it's going from here.

Operator

Your next question comes from Fred Wightman from Wolfe Research.

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

Just maybe to follow up on that. Ynon, you just said that you're still expecting Barbie to be down marginally for the year. Was there any change to the other Power Brand outlook for either Hot Wheels or Fisher-Price?

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

No change to what we said at Investor Day. We expect Hot Wheels to grow and Fisher-Price to be comparable. But remember, Fisher-Price, this is a Power Brand as we now define it. It includes Infant, Toddler -- sorry, Fisher-Price, the brand to grow, the category to be comparable. Fisher-Price to grow. And this is Fisher-Price as we define it now with Infant, Toddler segments, with Little People and with the new Wood line that we are just launching this year.

So we -- as you know, we are now executing a new strategy on the Infant, Toddler, Preschool category. We just announced a new leader for Fisher-Price, and this is one category that we focused on during Investor Day to talk about our evolved strategy, and there's a lot of new, new within Fisher-Price and the way we are managing now the category. So all in all, Hot Wheels to grow, Fisher-Price to grow, Barbie to marginally decline within the Power Brands.

Frederick Charles Wightman - Wolfe Research, LLC - Research Analyst

Okay. Great. And then just thinking about the cadence of the year, Anthony made a comment that it's going to be back to historical norms. I think that's what you guys had said previously. But you also made a comment you expect the first half to benefit from restocking. Is that still the plan?

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Yes. We haven't gotten that specific. Certainly, our first quarter was negatively impacted by the reduction in 2024. And looking ahead, we will wrap last year's retail inventory decline, so there should be some tailwinds ahead in that respect.

Operator

Next question comes from Kylie Cohu from Jefferies.

Kylie Nicole Cohu - Jefferies LLC, Research Division - Equity Associate

Congrats on a strong quarter. I was hoping you could double-click on the Optimizing for Profitable Growth program. I'm kind of wondering how you plan on leveraging AI over the next 24 months, specifically in regards to this program.

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Sure. So you mentioned the Optimizing for Profitable Growth program. Again, this is a new program that we announced coming into 2024, a 3-year program with a \$200 million cost saving target by 2026. And we've had quite an extensive look at AI, right? And we are looking at, I would say, use cases within the company where it can apply for us, whether it's things like translation. That's just one example, but I think there may be good applicability.

And that is certainly within the scope of our program as we look to further efficiencies that would leverage our global scale. AI is certainly one of them and other cost-saving opportunities, particularly within our supply chain as well. And this does include plans we disclosed recently to eliminate one of our plants in China. So it's a very comprehensive program, and I would say, given our track record, we're very confident in our ability to deliver.

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

And Kylie, I would add that we are looking at AI broadly in terms of integrating more capabilities into different type of analytics as well as product development and also product integration. So we have a team that is dedicated to that, and we are looking to leverage the technology in the broad sense of the word, not just in terms of achieving or driving this cost saving initiative.

Kylie Nicole Cohu - Jefferies LLC, Research Division - Equity Associate

Okay. Great. That's super helpful color. And then guess my follow-up would be around Mattel163. Do you have anything to share about the success of the Uno app? Some data you'd looked at, things like users are up, or anything else about upcoming launches? I know you mentioned the partnership with Take-Two, but anything about Mattel163 would be great.

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

Look, broadly speaking, the goal for our digital gaming strategy is to extend the physical play to the virtual world, by creating digital games and experiences that drive sustained engagement for fans of all ages, leveraging our brands. What is important about Mattel163 is that it's a showcase.

Much like the Barbie movie was a showcase for the potential in films, Mattel163 is a showcase for the potential of our brands to extend into digital games.

We did share that in 2023, we reached almost \$200 million at very high margin with just 3 games, and that clearly speaks to the potential of our brands when executed well. And our partners did a very good job in collaborating with us in marketing and creating games that create high engagement. We haven't announced any new games, but this remains a priority, and the new game with Take-Two will be another important partnership.

And in addition to that, we are looking to do more self publishing of mobile games based on our IP, where we have a higher level of participation economically into the success of our games based on strong brands, and just to just emphasize the importance of big brands to drive consumer engagement, reduce your marketing cost and potentially create a highly accretive business that is driven by strong brands.

Operator

Your next question comes from Megan Alexander from Morgan Stanley.

Megan Christine Alexander - *Morgan Stanley, Research Division - VP*

Don't want to beat a dead bush here, but can we just go back and wanted to ask a little bit more about just the cadence of the year? I think at the beginning of the year to, you'd expected shipping to align with historical trends. Maybe you could quantify for us what the destocking headwind in the first quarter was and whether it was in line with your expectations. I think you commented a 3- to 4-point destock headwind last year. So is that something that we should expect benefits the second quarter?

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

Yes. I think looking ahead, right, there should be tailwinds with respect to lapping some of the retail inventory decline. So as you referenced, last year, a fairly significant retailer inventory decline. We came into 2023 with levels elevated, and we guided a 3-to-4 point impact. We made great progress in '23, but we still ended the year with retail inventory slightly elevated. So the impact in 2024 is significantly less of a negative and, therefore, a tailwind with respect to gross billings.

And when we gave our guidance for 2024, right, we said that we expect POS to be flat, for net sales to be comparable in constant currency. So there's a plus and a minus there. One is the plus, is the wrapping of last year's retail inventory decline, and the offset to that is the wrap of the Barbie movie-related benefit. So yes, a tailwind in 2024, and it's reflected in the guidance. And it's really kind of so far unfolding as we expected.

Megan Christine Alexander - *Morgan Stanley, Research Division - VP*

Okay. That's helpful. And then just on the gross margin performance, is there any way within that mix benefit to quantify the tail from the Barbie movie, whether it was streaming, new partnerships? It seems like you're still rolling out new partnerships related to the movies, so I know there's a lot that goes into that mix line. Anyway to quantify what was pure Barbie movie-related within that?

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

Yes, difficult to dissect it, but overall, that 80 basis point favorable mix is a result of the higher-margin licensing business, including Barbie growing faster than the toy business. And we're also seeing some benefit related to the movie as we move into 2024, but certainly not as significant as last year.

Operator

Your next question comes from Eric Handler from ROTH MKM.

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

Anthony, I wanted to just talk a little bit about the cash flow statement. Your cash flow from operations was nicely positive. I think that's the first time that's happened since 2014. Huge swing year-over-year. Yes, net income loss came way down, but the results are pretty significant working capital benefit.

If you're keeping your free cash flow guidance unchanged around \$500 million, no change to CapEx, does that mean the working capital benefit that you received in 1Q will progressively unwind in the back -- in the remaining quarters of this year? How do we think about that?

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

Yes. There are a couple of points. One is there is some timing inside of our working capital performance, and I'll point to 2 things. One is related to incentive compensation. We didn't accrue incentive comp for '22, we did for 2023, and we're going to pay out the 2023 incentive in the second quarter of 2024.

So we ended the first quarter with accrued liability with respect to that program, that was the benefit. There's also some timing related to our inventory performance. Our owned inventories were down significantly in 2023. We're going to maintain those levels in 2024, so less of a benefit. So those kind of will unwind as we go through the year. which is why we're still guiding to that \$500 million 2024 free cash flow generation.

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

Very helpful. And then secondly, I imagine Barbie held up pretty well in the home entertainment window. I wonder if you're willing to sort of parse out the impact of ongoing Barbie movie contributions? And how do we think about that for not just 1Q, but the rest of this year?

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

Yes. I would say it's not material to our overall results. There is some carryover benefit, but again, I wouldn't say it's material.

Operator

Your next question comes from Christopher Horvers from JPMorgan.

Christian Justin Carlino - *JPMorgan Chase & Co, Research Division - Research Analyst*

It's Christian Carlino on for Chris. Could you speak to how retailers are planning their early holiday orders? And are they looking for more value? And do you expect the ASP or deflationary pressure in the category to continue at retail?

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

Yes. It's hard to get too specific at this point in the year. We are certainly engaged with all of our major retailers around planning for the upcoming holiday season around product price point, shelf space, promotions, advertising. So it all goes into the plan, and we believe we have a robust plan with our retailers and are optimistic regarding the holiday season, but a bit premature to talk about specific orders.

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

One thing I would add when it comes to pricing is that we have such a large portfolio and such a broad range of product that we really cater for all level of pricing. And this is one of the strengths of managing a large portfolio like ours, that we really can partner with the retailers at different price points and offer something for consumers at all price levels.

Christian Justin Carlino - JPMorgan Chase & Co, Research Division - Research Analyst

Got it. That's helpful. And were you able to recapture any of the fixed cost absorption impact in the first quarter? And how should we think about the phasing of that over the year now that we're back to normal seasonality and POS trending in line with shipments?

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Yes. I think it's more in the year ago period and not so much in the first quarter. As we ramp up production going into the second and third quarter, that's when we should see that absorption benefit.

Operator

Your next question comes from Stephen Laszcyk from Goldman Sachs.

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

Maybe just a follow-up on the retail sentiment at the moment, Ynon. I'm curious if you could just maybe talk a little bit more about what you're hearing from your retail partners on the consumer and the demand side of the equation at the moment, and how that might compare to what you expected coming into the year. Any pockets of the industry that are maybe outperforming or underperforming your expectations so far?

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

Okay. I would say so far, things are in line with expectations. Retailers are leaning in. We always talk about the importance in strategic value that retailers are putting on this category because it's experiential. It drives foot traffic. The items are affordable. And you play into a fundamental human behavior of trade that is not going away, especially when it comes to big brands and quality product.

What we've seen so far is that -- as we've said in the prepared remarks is that we believe the industry benefited from -- in the first quarter from an earlier Easter. And year-to-date to mid-April, has been comparable to last year. but we do expect some decline in 2024, although at a lesser rate than last year. The decline is due to the same factors that impacted 2023 in terms of a lighter toyetic theatrical film slate and the impact of a shift in consumer spending towards products -- towards experiences and services, but that trend is moderating.

And we believe it will further improve, and that the industry will return to growth and continue to grow over the long term. We do expect to outperform the industry. We did see positive consumer demand with the improving trends that we talked about. We expect to outperform the industry and gain market share for the full year.

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

Got it. And then maybe just a follow-up, Ynon, to the extent you're willing to expand on the M&A point. Is there any type of asset or features of assets that you're particularly considering at the moment or think would be best suited for Mattel's strategy at this point? I think in the past, you said you're not looking to do something that would surprise the investment community. Any sense of what that means?

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

Yes. What we did say is that to the extent we are looking at M&A opportunities, we would expect them to be additive and very much in line with our strategy in ways where we can accelerate our strategy. We did say that when we look at acquisitions, we are very mindful of the risk in implementing an acquisition successfully. And if we do something, we would expect it to be accretive, additive, strategic.

And we always use the term obvious in that we wouldn't expect the market to be surprised, not by the type of assets and not by the price we would pay in terms of being disciplined financially and commercially. We work very hard to put the company on very strong financial footing. The company today is in the strongest position it's been in terms of balance sheet, cash generation, leverage ratio at investment grade.

So we cover the long distance, and we wouldn't risk that. And so the message is we're being very thoughtful and prudent. And as I said before, the fact is that so far, we chose to spend \$300 million on our own stock rather than buy other assets. And so we are taking everything into consideration, all under the heading of long-term value creation for our shareholders and adjust that for risk.

Operator

Your next question comes from James Hardiman from Citi.

James Lloyd Hardiman - Citigroup Inc., Research Division - Director

So just wanted to connect some of the dots that you guys have given us here. So you guys put up a flattish top line in the first quarter. Full year guidance is for flattish top line. Obviously, we shouldn't expect it to be flat every quarter. But Anthony, you talked about 2 issues that are going in opposite directions, right? You're lapping the retail inventory decline, and then your -- which should be a benefit, and then you're lapping the Barbie benefit, which should be a headwind.

Am I reading too much into this to think that the bigger piece of that benefit will come in Q2, and the bigger piece of that headwind will come in Q3 so we should see a growth in Q2 and a decline in Q3? I'm just looking at consensus numbers. The Street is assuming that Q3 is going to be down pretty meaningfully. I'm just wondering if you think you can -- if that's right, and if you think you can offset that with some growth in Q2.

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Yes, without getting too specific on any given quarter, certainly, the Barbie wrap will be predominantly in Q3, and to a lesser extent, in Q4. And directionally, the benefits of the inventory -- retail inventory wrap probably should be more Q2 than Q3.

James Lloyd Hardiman - Citigroup Inc., Research Division - Director

Got it. And then I guess just more broadly, I mean, literally nothing changed in your guidance. I don't want to assume that everything has gone as planned over the past 3 months, but you did meaningfully beat our estimates, at least on the bottom line. I think sales are a little worse, but certainly margins were significantly better.

I'm curious if you think just the Street was mismodeling the first quarter or whether the first quarter was actually in some ways better than you would have expected, and maybe it was just some timing as to why that didn't flow through to the full year. Just trying to sort of tease out how much of the beat versus our expectations and the non-raise is conservatism versus timing versus just we weren't thinking about it right.

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Yes. So as you know, we don't get too specific on any individual quarter. I mean we certainly saw strong margin gains in the first quarter. And we are reaffirming our full year guidance, right, for net sales to be comparable on constant currency, for adjusted gross margin to be up 100 to 150 basis points. So again, we're off to a good start there. And EBITDA, \$975 million to \$1.025 billion, and for EPS to be up double digits. So again, off to a good start and confident that we will get to achieve this guidance.

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

And I would add, James, that in the context of a soft industry, we look to continue to gain share as we said. And the emphasis for us this year is about profitability, gross margin expansion and free -- and strong cash generation, to continue to strengthen the company and position it for long-term growth, and we expect to resume growth at the top line and bottom line, but just emphasizing the top line in 2025.

Operator

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

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

Yes. So I was curious, I just -- I noticed in your results, I think, unless I missed it somewhere, the American Girl sales were not really broken out separately. And also, you moved Imaginext out of Fisher-Price into the kind of Other category.

So maybe you could just kind of comment if there's any meaning behind those things. Is Imaginext going to be discontinued? Or is it just going to be outlicensed? Or what exactly? And then American Girl, what are the plans there? And how did it do in the first quarter?

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

Linda, yes, we did, as you know, made American Girl now part of North America commercial. So it's not isolated or not segmented out as before. It's part of our North American business. But we did say that we are progressing our strategy on American Girl. It grew in the first quarter. It is a valued asset within our portfolio, with significant fan base and great product, and we feel very good about it, and it was good to see growth in the first quarter.

We outpaced both the large Doll and total Doll categories in the U.S., led by the core 18-inch business, which was up double digit. So we are encouraged by the strong start of the year and confident in the future of these treasured brands, with more innovation and more execution and continued improvement of our retail footprint and flagship stores.

Imaginext is now part of Preschool entertainment. This is the part of the Infant, Toddler, Preschool category that is driven by brand and character versus Fisher-Price, which is more product-driven. And it will now be -- when we talk about the category, Infant, Toddler, Preschool category, we will talk specifically about Fisher-Price as the Power Brand that, as we said earlier, includes Infant, Toddler, Little People and the new Wood line. We'll talk about Preschool entertainment. And separately, as you know, there's the third bucket of Baby Gear and Power Wheels, which we are exiting or outlicensing that you will see declining over time.

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

Okay. And then I was just curious, you had mentioned you referred to your one -- your manufacturing plant closure in China. And I was wondering, can you comment on your percentage of manufacturing in China, how it stands today versus, say, 3 and 5 years ago? And kind of what is the

longer-term plan for that? Just a lot of investors are asking about different exposures to China, both on the manufacturing side and what that could mean. So what are your thoughts on that topic?

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

Yes, today, we are at about 50% of products that are being made in China. Industry average is between 80% to 85%, and we're now at 50% and declining. It's on the way down. And this is not -- it's not so much about geopolitical risk as such, but more about diversifying our footprint and working in different countries and continue to optimize our footprint in terms of cost, fulfillment, services by different suppliers.

And part of our journey to continue to strengthen our supply chain, which is now a competitive advantage for us, but we believe we can continue to improve it even further. And as you know, about 70% of our Optimizing for Profitable Growth program will come from cost of goods sold, which is directly driven by the performance and improvement that we are driving in supply chain.

Operator

Our last question comes from Jaime M. Katz from Morningstar.

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

Thanks for squeezing me in. I'd be curious if you have any insight into demand across price points? Are there different demographics that you're seeing that are really struggling to convert the sale? Or is there anything else, consumer-wise, that might be helpful to understand?

Anthony P. DiSilvestro - Mattel, Inc. - CFO

Yes. I would say it's too early in the year to comment. We're not seeing any specific trends in that regard. And as Ynon stated a few minutes ago, our portfolio is well positioned to compete across all price points from a single die-cast car to a Barbie Dreamhouse, right? So we have a great portfolio, and we are developing our plans with our major retailers, and look forward to executing the season.

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

Okay. And then just because you haven't discussed it in the past, now that there is another Adventure Park coming out, are there any economics of that, that you could share with us? I just -- I don't know how many locations that could ultimately be or what that total addressable market is, so any insight on that would be helpful.

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

Well, we haven't broken down the economics, but we did say this is a capital-light approach where we license our brands and participate in different forms in the economics of the park and, of course, can sell product there. This is a highly accretive business line, especially given the strength of our brands.

And we do look at this area as an important growth lever and expect to have more location-based entertainment opportunities in addition to the 2 parks that we already announced and the other executions we talked about during the Investor Day, such as the Monster Truck Tour and other opportunities. But this is the strategy, to take strong brands that drive engagement and have a large fan base and capture value outside of the toy aisle in highly accretive business opportunities.

Operator

That concludes the question-and-answer session. I will now turn the call back over to Ynon Kreiz for closing remarks.

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

Thank you, operator, and thank you, everyone, for joining us today. As we said, we are off to a good start for the year, with positive consumer demand, significant gross margin expansion and very strong improvement in cash flow, which is exactly in line with what we were aiming to achieve.

We expect to outpace the industry and gain market share in 2024 and are on track to achieve our full year guidance. We continue to successfully execute our strategy to grow our IP-driven toy business and expand our entertainment offering and are very well positioned to create long-term shareholder value.

Thank you for listening today. Of course, we'll follow up over the next few days and answer any more questions, but we appreciate the time. And now I'll turn the call over to Dave.

David Zbojnowicz - Mattel, Inc. - VP & Head of IR

Thanks, Ynon. And thank you, everyone, for joining the call today. The replay of this call will be available via webcast beginning at 8:30 p.m. Eastern Time today. The webcast link can be found in the Events and Presentations section of our Investors section of our corporate website, corporate.mattel.com. Thank you for participating in today's call.

Operator

This concludes today's conference call. Thank you for your participation, and you may now disconnect.

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