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MAT.OQ - Q1 2025 Mattel Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Abby, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Mattel Inc first quarter 2025 earnings conference call. (Operator Instructions)

Thank you. And I would now like to turn the conference over to Jenn Kettnich, Head of Investor Relations. You may begin.

Jenn Kettnich - Mattel Inc - Head of Investor Relations

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

As you know, this afternoon we reported Mattel's first quarter 2025 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. Please note that during the question and answer session we respectfully ask that you limit to one question and one follow-up, so that we can get to as many analysts and questions as possible today.

Today's discussion, earnings release, and slide presentation may reference certain non-GAAP financial measures and key performance indicators, which are defined in the slide presentation and earnings release appendices. Please note that Gross Billings figures referenced on this call will be stated in Constant Currency, unless stated otherwise.

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

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

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

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

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

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

Welcome, everyone, and thank you for joining Mattel's first quarter 2025 earnings call. We had a strong first quarter, with top-line growth and gross margin expansion, positive performance across most categories and markets, and continued operational excellence.

Looking at key financial metrics for the first quarter as compared to the prior year: Net Sales grew 2% as reported and 4% in constant currency, Adjusted Gross Margin increased 130 basis points to 49.6%, and Adjusted EBITDA grew 7% to \$57 million. We continue to benefit from a strong balance sheet, including \$1.24 billion in cash at quarter end, after repurchasing \$160 million of shares in the period.

A key topic that further developed during the quarter is tariffs and global trade uncertainty, which are having a significant impact on the toy industry. While tariffs did not affect our first quarter financial results, we are taking mitigating actions designed to fully offset the potential incremental cost impact of tariffs on future performance in three key areas: accelerating diversification of our supply chain and further reducing reliance on China-sourced product, optimizing product sourcing and product mix, and where necessary taking pricing action in our US business.

Over the past several years we have diversified our manufacturing footprint and developed a flexible model to adapt efficiently to changing market conditions. Today we source products from a combination of owned and operated factories and third-party suppliers in seven countries. China currently represents less than 40% of global production for our toys, compared to an industry average of 80%. In terms of US imports for Mattel, China represents less than 20% of global production.

While China continues to be an important sourcing country for us on a global basis, we have been accelerating plans to further reduce reliance on China-sourced product as part of our diversification strategy. As an example, in 2025 we will be relocating production of 500 toy SKUs from China to other sourcing options. This is up from 280 SKUs, which we relocated in 2024, well before the recent US tariffs were enacted.

In terms of optimizing product sourcing and product mix: with the benefit of Mattel's global scale and diversified supply chain, we are shifting sourcing flows across our portfolio between countries where we make products and countries where we sell products. This will enable us to further lower the amount of China-sourced products in the US and reduce exposure to the US tariffs.

In some cases where a product is in high demand, we will dual source from two or more countries and can use this to our advantage. For example, UNO, which is produced in both China and India, is increasing flow from China towards international customers, and we are significantly ramping up volume in India to serve the US market.

The combination of further diversifying our supply chain footprint and optimizing product sourcing and product mix is expected to reduce our US imports from China to less than 15% of global production by 2026, and less than 10% by 2027, with additional contingency plans to accelerate that if required.

Taking pricing action in our US business, where necessary, will be done in close collaboration with our retail partners, while always keeping the consumer in mind to ensure we offer the right balance of price and value, and maintain high-quality standards. Under the current scenarios we are considering, we expect that 40% to 50% of our product will be priced at \$20 or less.

The breadth of our portfolio, innovative products, diversified and flexible supply chain, and global commercial organization are clear advantages for Mattel in this period of uncertainty. We are committed to continuing the uninterrupted supply of quality products across a wide range of affordable price points and strengthening our standing as a trusted partner for retailers and consumers.

We support the US Toy Association and other global toy associations advocating for zero tariffs on toys and games globally to ensure that safe, affordable, and high-quality toys remain accessible to all. Toys are foundational to a child's growth and development. Zero tariffs for toys gives the greatest number of children and families access to play.

Coming back to the first quarter's performance, our business grew across most categories and geographies. Growth in Gross Billings was driven by Action Figures, Vehicles, Dolls and Games. There are several recent highlights worth mentioning by category. Dolls grew, with strong performance in Disney Princess and Wicked, while Barbie and American Girl were comparable to prior year. The Barbie brand continues to resonate driven by innovation, cultural relevance and strong appeal among adult fans. The New KenBassador series launch with LeBron James became a global phenomenon and sold out across all retail channels.

Vehicles continued to grow driven by Hot Wheels. The Formula 1 presale is a great set up for the mass launch in the Fall, and the first product from our new partnership with Ferrari sold out on Mattel Creations.

Within Infant, Toddler and Preschool, the new Barney toy line, Fisher-Price Wood and Little People performed well. Challenger Categories as a whole grew double digits and had several wins: In Games, UNO achieved a record first quarter, Action Figures grew double digits driven by Minecraft, Jurassic World, and WWE. Minecraft product performed particularly well, enhanced by the live action movie, which is the largest grossing domestic film so far this year. Also, in Action Figures, we recently renewed multi-year global licensing agreements with WWE and with Disney for Toy Story, including next year's theatrical release, Toy Story 5.

These agreements, combined with our previously announced licensing partnership with DC, which will begin mid-2026, further establish Mattel as a partner of choice for the major entertainment companies and IP owners.

Our entertainment strategy also continues to make exciting progress. In film, the Masters of the Universe movie is well into production in London, ahead of its worldwide theatrical premiere on June 5, 2026, the Matchbox movie just wrapped principal photography and is slated for release in the Fall of 2026, and the Barney movie, with Daniel Kaluuya's 59% Productions and A24, is in development and will be written by Emmy and Golden Globe winner Ayo Edebiri.

In television, Hot Wheels Let's Race season 3 and a new Barbie special both premiered on Netflix. In digital games, we continue to progress towards launching our self-publishing business and are targeting the release of the first game in 2026. At Mattel163, our digital games joint venture with NetEase, the first quarter net income contribution increased nearly 75% from the prior year.

Following a strong first quarter, we are also off to a strong start in the second quarter, with POS up double digits quarter to date, both in the US and internationally. We expect the second quarter to benefit from the highly anticipated Jurassic World: Rebirth movie product, which will be on shelves June 1, continued performance in our innovative Minecraft movie product, and ongoing momentum in Hot Wheels. We also recently announced the launch of our first product collection for the Mattel Brick Shop: Hot Wheels collector building sets for adult fans, which will reach full retail distribution this summer.

Given the volatile macroeconomic environment and evolving US tariff situation, it is hard to predict consumer spending and our US sales in the remainder of the year and holiday season. We are therefore pausing full-year 2025 guidance until we have sufficient visibility. That said, we are confident about the mitigating actions we are taking, which are designed to fully offset the potential incremental cost impact of tariffs on future performance. Our International business, which comprises roughly half of our overall revenue, is not expected to be materially impacted by tariffs.

Historically, the toy industry has proven to be resilient during uncertain times, and we believe Mattel is in a much better position than the industry to adapt efficiently to the changing market conditions. As a global leader in toys and family entertainment, our brands are thriving, our products and experiences stand out in the marketplace, and our supply chain is a competitive advantage. We have a strong balance sheet that gives us

flexibility to execute our strategy to grow Mattel's IP-driven toy business and expand our entertainment offering. We are maintaining our target of \$600 million of share repurchases for 2025, in line with our capital allocation priorities.

In closing, this was a strong quarter for Mattel with top-line growth and gross margin expansion, and continued operational excellence. At Mattel, we are very good at navigating complexity, volatility, and dynamic situations. We are adapting with speed, agility, and discipline, and are ready for the challenge. As we look ahead, we expect not only to manage through this volatile period but strengthen our competitive position.

Before I hand it over to Anthony, I would like to thank him once again for his many contributions to the company as our Chief Financial Officer for the last five years. We expect to announce his successor in the near future and look forward to Anthony's continued service as an advisor over the next several months to ensure a seamless transition.

Anthony, over to you to cover the financials in more detail one last time.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Thank you for the kind words, Ynon. It's been a pleasure to be part of Mattel.

In the first quarter we grew top line and expanded gross margins, with broad-based category strength and continued operational excellence. Net sales increased 2% as reported and 4% in constant currency to \$827 million, Adjusted Gross Margin increased by 130 basis points to 49.6%, Adjusted Operating Loss improved by \$7 million to a negative \$16 million, driven by sales growth and gross margin expansion, Adjusted Loss per Share improved \$0.02 to negative \$0.03, and Adjusted EBITDA increased 7% to \$57 million.

Turning to Gross Billings in constant currency. Total Gross Billings increased 5% with growth across most categories and regions. POS increased low single digits including the adverse impact from a later Easter holiday this year.

Dolls Gross Billings increased 2%, primarily driven by growth in Disney Princess and Wicked, while Barbie and American Girl were both comparable to the prior year. Vehicles increased 6%. Hot Wheels increased 7%, driven by growth in die cast cars, both the kids and collector segments, and tracks and playsets.

Infant, Toddler and Preschool overall declined 5% due primarily to declines in Baby Gear and Power Wheels following planned exits, partly offset by growth in Pre-School Entertainment benefiting from the launch of Barney. While Fisher-Price POS increased low single digits in the quarter, Fisher-Price Gross Billings declined 1% due to Infant, mostly offset by growth in Fisher-Price Wood and Little People. As a reminder, in line with our strategy, most of the planned exits of Power Wheels and certain product lines in Baby Gear will have been completed by the end of this year. Challenger Categories, overall increased 14% driven by growth in Action Figures and Games, partly offset by a decline in Building Sets. The growth in Action Figures was driven by Minecraft and Jurassic movie properties, and WWE.

Looking at our first quarter performance geographically, we achieved growth in three of our four regions. Gross Billings increased 4% in North America, including double-digit growth in Canada, EMEA increased 8% with growth across almost every market, Asia Pacific increased 12%, driven by growth in Australia, India and China, Latin America declined 7%, reflecting the impact of retailers reducing inventory levels, as anticipated.

Retail inventory is up high-single digits globally, compared to the prior year, reflecting the impact of a later Easter holiday and a build-up of movie-related products ahead of theatrical releases. We believe retail inventory overall is at appropriate levels and of good quality.

Adjusted Gross Margin was 49.6%, an increase of 130 basis points compared to the prior year. The increase was primarily driven by: lower inventory management costs, principally obsolescence and closeouts, and savings from the Optimizing for Profitable Growth Program, which each added 110 basis points. These were partly offset by cost inflation which had a negative impact of 100 basis points, mainly driven by higher labor and logistics costs.

Moving down the P&L, advertising expenses of \$70 million were comparable to the prior year, and Adjusted SG&A increased 4% to \$355 million, due to investment-related spend and compensation, partly offset by savings from the Optimizing for Profitable Growth program.

Adjusted Operating Loss improved by \$7 million to a negative \$16 million, with the improvement driven by net sales growth and Adjusted Gross Margin expansion. Adjusted EBITDA improved \$4 million to \$57 million. Adjusted Loss per Share improved by \$0.02 to a loss of \$0.03.

Cash from operations was \$25 million compared to \$35 million in the prior year period. On a trailing 12-month basis, we generated \$582 million of free cash flow compared to \$964 million in the prior year. Free cash flow in the prior year period benefited from an outsized reduction in inventory. Consistent with our capital allocation priorities, we repurchased \$160 million of shares in the quarter. We have now repurchased \$460 million over the last 12 months and over \$760 million since resuming repurchases in 2023.

Taking a look at the balance sheet. We finished the quarter with a cash of \$1.24 billion compared to \$1.13 billion a year ago, an increase of \$113 million. The increase reflects free cash flow generated over the last 12 months, less \$460 million of share repurchases. Total debt remains at approximately \$2.34 billion with the next maturity in 2026.

Accounts receivable decreased \$40 million to \$633 million, reflecting a decline in day-sales-outstanding. Inventory levels are appropriate for this time of year at \$658 million compared to \$669 million a year ago. Our leverage ratio, debt to adjusted EBITDA, improved to 2.2 times compared to 2.3 times a year ago, benefiting from the increase in trailing 12-month Adjusted EBITDA.

We continue to achieve savings under our Optimizing for Profitable Growth Program. In the first quarter we generated \$19 million in savings, with roughly half benefiting cost of goods sold and the other half in SG&A. We have now achieved \$103 million of savings since launching the program in 2024. As we look to the rest of 2025, we are increasing our cost savings target for the year to \$80 million, versus \$60 million previously, and are on track to achieve total program savings of \$200 million by 2026.

We are operating in a dynamic macro-economic environment with significant volatility. Given the evolving US tariff situation, we are assessing a wide range of potential scenarios. As Ynon mentioned, we are taking mitigating actions designed to fully offset the potential incremental cost impact of tariffs on future performance in three key areas: accelerating diversification of our supply chain and further reducing reliance on China-sourced product, optimizing product sourcing and product mix, and, where necessary, taking pricing actions in our US business.

In addition, as we plan for the rest of the year with our retailers, we intend to rebalance promotional activity to drive cost efficiencies while maintaining sufficient support, and as mentioned earlier, we are accelerating cost savings and increasing our 2025 target under the optimizing profitable growth program from \$60 million to \$80 million.

We do not expect second quarter costs to be impacted by tariffs, due to timing of inventory flows. Under the current tariff framework, we would expect to see tariffs impact our costs starting in Q3, although many of the mitigating actions we've outlined will also be in effect by then. We are off to a strong start in the second quarter with POS up double digits quarter to date benefiting from the Easter holiday and up low single digits year to date with growth both in the US and internationally. However, we may see some movement in our Gross Billings performance between quarters starting in Q2 related to direct import shipments as retailers assess their DI-trade mix.

Given the volatile macro-economic environment and evolving US tariff situation, it is hard to predict consumer spending and our US sales in the remainder of the year and holiday season, and we are therefore pausing our full-year 2025 guidance until we have sufficient visibility. That said, we are maintaining our \$600 million share repurchase target for 2025, in line with the capital allocation priorities.

In closing, our first quarter results were strong, and the second quarter is off to a good start. With our scale, resources and capabilities, we are confident about the mitigating actions we are taking, which are designed to fully offset the potential incremental cost impact of tariffs on future performance. We are well positioned financially with ample cash and will continue to manage our balance sheet in line with our capital allocation priorities, as we execute our strategy to grow Mattel's IP-driven toy business and expand our entertainment offering.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Arpine Kocharyan, UBS.

Arpine Kocharyan - UBS - Analyst

Thank you so much for taking my question and thank you for the detailed prepared remarks. I wanted to go back to the optimism, the encouraging comments you had in the prepared remarks about fully offsetting the impact of incremental tariffs. Understanding it is very difficult to assess the timing of that but if you were to outline the roadmap of how you get there, what would that timeline be?

And assuming that current status quo holds for tariffs, in other words, reciprocal tariffs are paused and China remains where it is and also thinking about the fact that we won't really see much impact until Q3, as you indicated. Could you maybe give us a sense on the current exposure in dollars for the year to the extent you can, of course? And then, I have a quick follow-up.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Hey, hi, Arpine. Let me talk about a couple of questions there. As we said in our remarks, Q1 was not impacted by tariffs. We don't expect Q2 to be impacted. It's really in Q3 that we expect to see some tariff impact coming through as it works through the inventory cycle. In terms of magnitude, and as we said, the situation is very fluid and a lot of uncertainty around the macro-economic environment.

So our planning approach has been to look at a range of potential scenarios and both upside and downside for Mattel regarding both the tariff and the potential impact on consumer spending and our US sales. But what I will say, if you look at the current state with tariffs at 145% on China, 10% rest world and 0% for Mexico, the incremental cost exposure this year relative to our initial planning assumption would be roughly \$270 million.

Now, from that, that's before you consider any of the mitigating action, and there are several of them. As Ynon mentioned in the remarks, we are accelerating diversification of our supply chain and further reducing reliance on China. We're also optimizing that product mix between the sourcing country and the selling market to minimize the tariff impact, and where necessary, taking pricing actions in our US business.

There's also two additional levers that we mentioned. One is accelerating the cost savings under our OPG program, increasing the savings target to \$80 million in 2025, and we'll also look to adjust our promotional activity to improve efficiency in the remainder of the year. And it's all those actions taken together that are designed to fully offset the cost impact of the incremental tariffs.

Arpine Kocharyan - UBS - Analyst

That is super super helpful. Thank you. And then, I have a quick follow-up. Others talk about Indonesia and Malaysia as kind of the next frontier for supply chain expansion. But Mattel, you have been in both of those markets for some time with sizable volume. Could you maybe expand on where you see flexibility in your supply chain to transition out of China? Is it a matter of incremental tooling investment in factories that you already operate at? And can they handle that much incremental volume?

What are the main bottlenecks, if you will, and kind of urgent supply chain needs that you have at the moment and how you're approaching them, and you did have helpful example on India on UNO. But anything of the sort that you could give investors a little bit more color would be very helpful.

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

Hi, Arpine. As you know, we've been on this journey for seven years. This has not happened overnight and the goal was to establish a flexible, modular, resilient supply chain that is balanced and diversified by geography and by the product that we make. Today, we source product from a combination of owned and operated factories and third-party vendors in seven different countries, and that gives us a very balanced footprint with significant flexibility, one example is the ability to dual source product is in high demand between more than one country.

So with that, our supply chain is a meaningful competitive advantage. That gives us, not just the ability to produce quality product at affordable prices, but we can react and respond and address and take advantage of opportunities that open up in the marketplace. We said that by 2027, no one country would represent more than 25% of our total toy production. And when it comes to China, we talked about accelerating that further given the tariff situation.

And to give you more context and you may know some of that, we talked about the fact that 80% of toy production globally is from China. We index at less than half of that in terms of product coming from China for Mattel. In terms of US imports, less than 20% of our global production comes from China, and we plan to reduce that to below 15% by 2026 and below 10% by 2027, with additional contingency plans to accelerate that if required.

So putting all of this together, given the strength of our supply chain, we don't expect only to manage through this volatile period but to strengthen our standing as a trusted partner for the retailers and consumers and further strengthen our standing as a trusted partner for parents and families.

Arpine Kocharyan - UBS - Analyst

Very helpful. Thank you much. Thank you.

Operator

Stephen Laszczyk, Goldman Sachs.

Stephen Laszczyk - Goldman Sachs - Analyst

Hey, great, thanks for taking the questions. Maybe, Ynon, on mitigating efforts on pricing. I was curious if you could talk a little bit more about what gives you confidence in your ability to pass along pricing to some of your largest retailers. I think there's some concern out there that retailers might look to push back on pricing, perhaps putting the margin of companies like yours at risk. Just curious the conversations you're having there.

And then, second maybe for Anthony on the demand side. I know it's hard to predict, but would be curious if you could just talk a little bit more about the range of outcomes you mentioned that you're considering on the demand side, should tariffs remain at current rates. Are there any bands of outcomes that we should be thinking about from our side if current rates stay in place for the full year? Thank you.

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

Sure. Stephen, we work very closely with our retail partners. This is business relationships that span decades, working collaboratively across categories, countries and different situations. We always have the consumer in mind when we talk about pricing and we make sure that we offer great product and experiences with the right balance of quality and value at affordable price points.

In this particular situation, we are taking a strategic approach. We talk about the fact that under the tariff scenarios that we're looking at, we expect that between 40% to 50% of our product in the US will be priced at \$20 or less. And for that matter, the number one toy item in the world, the Hot Wheels basic car, we sell for just over \$1. So we clearly offer a very wide range of offering, and the fact that we have a diversified and flexible supply chain is going to be an important advantage for us that will help us keep prices affordable for consumers in this period of uncertainty.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

And then, to the second part of the question, it's hard to get too specific on the upside and downside around the potential scenarios. But certainly, in terms of risk, there is the overall macro-economic environment and what condition the overall consumer might be in the back part of the year.

On the other hand and as Ynon mentioned, given our unique capabilities and advantages, there is potential upside if there's product shortages generally or opportunities to gain additional shelf space. So again, a range of opportunities and downsides, which fits into our scenario planning approach.

Stephen Laszcyk - Goldman Sachs - Analyst

Great. Thank you, both.

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

Thanks, Stephen.

Operator

Megan Clapp, Morgan Stanley.

Megan Clapp - Morgan Stanley - Analyst

Hi, good evening. Thanks so much. My first question is just more of a clarification related to Arpine's first question on the tariff impact. Really helpful, the \$270 million and understand that's before mitigation. But I just wanted to clarify the comment about fully offsetting the incremental cost. It seems like you'll be able to offset some of that \$270 million this year, but actions like moving outside of China will take more time. So just wanted to formally clarify that the ability to fully offset is more of a long-term comment, not necessarily a 2025 comment?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

It was specifically a 2025 comment that the actions we detailed are designed to fully offset the cost impact of the incremental tariff.

Megan Clapp - Morgan Stanley - Analyst

Okay. Great. That's helpful. And then, maybe just a follow-up on the guidance. Based on that as well, it does seem like the decision to pause guidance at this point is driven more so by the uncertainty on the demand outlook rather than the cost impact. So maybe you could just expand a bit more in terms of how you came to that decision to pause guidance and what exactly do you need to see between now and the end of July to be able to provide guidance again? And related to that, what exactly are you hearing from retailers in terms of ordering patterns?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah. Megan, the way you're thinking about it is correct. There's kind of two parts to it, right? On the direct cost side, we have these actions that are designed to fully offset the cost impact. What's difficult to predict, given the macro-economic uncertainties and what the consumer environment will be for the balance of the year is what's the demand side, right?

And that's where we get into the scenario planning, have a number of upsides and downsides. And because of that, we decided to pause the guidance until we have sufficient visibility, right, at which point, we'll come back and provide the market an update.

Megan Clapp - Morgan Stanley - Analyst

Okay.

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

And I would add that the situation is still evolving. And therefore, it could be that one scenario that we put out today on demand will change within a few short weeks. So, we do have different levers and as Anthony said, planning for different scenarios. But given that volatility and uncertainty, we decided to pause on guidance and continue to focus on mitigating actions and operational excellence.

Megan Clapp - Morgan Stanley - Analyst

Okay. Thank you. That's helpful. I'll pass it on.

Operator

Kylie Cohu, Jefferies.

Kylie Cohu - Jefferies - Analyst

Hey there. Thank you so much for taking my question. I guess asking the pricing question a different way, how much pricing action do you think would be required at the current tariff level? And you know, anything kind of to that same point is have you done any work on elasticity that you'd be able to share with us? Thanks.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yes, it's hard to get too specific on the pricing thing. We are working closely with our retail partners. And as we talk about pricing, we always keep the consumer in mind and try to find that right balance between price and value while maintaining our high-quality standards. We are taking a strategic approach to pricing across the portfolio and have a very flexible framework that can quickly adapt should the tariffs change.

I think an important fact to consider is under the current scenarios we are considering, we expect that 40% to 50% of our product in the US, will be priced at \$20 or less. So, we have a broad portfolio in terms of price points and innovation and brands and flexible supply chain. But obviously, again, we'll keep the consumer in mind.

In terms of price elasticity, and again, this comes back to why we're looking at scenarios, it's really difficult to say. We're going to be in a situation where the entire industry is impacted, the competitive set is impacted. In that context, you can't really rely on the historical traditional pricing studies, in that context. So again, we're monitoring the situation, working closely with the retailers and we'll adjust as necessary.

Kylie Cohu - Jefferies - Analyst

Great. Thanks so much for the color. And I guess my follow-up is on inventory levels. You mentioned it briefly but how are inventory levels looking post the Easter holiday? You also mentioned timing shifts in between Q2 and Q3, but any major changes to the total number of orders overall?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah. So, we're in a good spot with inventories, both owned and at retail. Our owned inventories are where they should be for this time of year. Retail inventories are also at appropriate levels. They are up a little bit versus last year and that's because of the impact of the slightly later Easter holiday and as we prepare for theatrical tie-ins specifically around Minecraft and Jurassic World. So we feel really good about the inventory situation at this point in the cycle.

Kylie Cohu - Jefferies - Analyst

Great.

Operator

Alex Perry, Bank of America.

Alexander Perry - Bank of America - Analyst

Hi, thanks for taking my questions here. I guess, first, just to follow up on Megan's question from earlier. Have you seen any changes in key retailer buying behavior as of late or changes in holiday order patterns? I think you specifically called out inability to predict holiday in a couple of the materials. So just wanted to see if you've seen anything yet or it's just a very uncertain environment, which led you to pause the guide? Thanks.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah. So, we haven't seen any pull forward that's notable. We haven't seen any material cancellations. The only thing we've seen is in the DI space, and DI is a smaller portion of our business. We could see some movement in our Gross Billings performance between quarters starting in Q2 related to direct import shipments as our retail partners assess their direct import trade mix. So, we could see a little bit of volatility in that context.

Alexander Perry - Bank of America - Analyst

Got you. That makes sense.

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

Alex, if I may, what I would add is that according to the Toy Association, there are some cancellations and delays in shipping and production of product in China given the US tariff situation. As the Toy Association put out in their note is that they estimated that about 96% of the industry is made of the small to medium enterprises. Many companies produce their entire inventory in China. And so potentially could be change in the industry dynamics in terms of product that is coming into the country from China, and that is primarily within the companies that are less diversified in terms of their own supply chain. This is something to keep in mind.

Alexander Perry - Bank of America - Analyst

That makes sense. So I guess, just ask about that as a follow-up. Is that -- should that lead to share shifts and potential market share gains for you if others are maybe seeing cancellations and you're not, given your diversified supply chain and maybe your ability to take price?

And then, my other follow-up was just going to be on the 2Q point of sale, up double-digit percent. What's driving that? And then, how close would you expect sort of POS and revenue to track? I know you have the direct import dynamic going on in the quarter, but I just wanted to ask how we should think about top-line in the second quarter in light of the POS commentary you gave. Thanks.

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

Yeah. I think the first question, I mean, we do have several important strategic advantages between the strength of our brands, the variety of our product offering at multiple price points and importantly, our supply chain and ability to offer prices that are competitive and affordable. We believe that is a competitive advantage for the company.

And while we do call for zero tariffs on toys, we support the Toy Association call for zero tariff on toys, because we believe it should be affordable and reachable for as many people as possible given that toys is such an important part of children's lives. In a world where we can benefit from our strength and competitive advantages, we do believe that we will not only manage through this volatile period but strengthen our outstanding as a trusted partner and for retailers and consumers. And we are committed to continuing the uninterrupted supply of quality products across a wide range of affordable price points to consumers and families worldwide.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

And just to clarify the point on POS. So, for the first quarter, our POS is up low single digits and then in April, so quarter to date, we said we're up double digits. That's primarily driven by the Easter holiday timing. When you look at year to date through April, which includes the Easter holiday in both periods, we're up low single digits.

Alexander Perry - Bank of America - Analyst

Perfect. Really helpful. Best of luck going forward.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Thank you.

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

Thank you.

Operator

Eric Handler, Roth Capital.

Eric Handler - Roth Capital Partners LLC - Analyst

Hi, good afternoon. Thanks for the question. Looking for a little bit of a clarification on the last question. It sounds like 2Q, a lot of the net sales number is going to be dependent on direct imports. Are you willing to quantify just how much could be the swing factor with direct imports?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

No, it's hard to quantify the impact given the volatility in the market right now.

Eric Handler - Roth Capital Partners LLC - Analyst

Okay. And then, secondly, as I think about your most profitable product lines, I imagine that's Barbie and Hot Wheels. Where are those products manufactured? And if you have to start moving things around, is there any risk of disruption with those product lines?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Without getting too specific, we manufacture, as you know, die-cast cars, fashion Dolls, in owned and operated plant where we have a significant competitive advantage and cost advantage, and the majority of those two product lines are manufactured outside of China.

Alexander Perry - Bank of America - Analyst

Great. Thank you.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Sure.

Operator

Chris Horvers, JPMorgan.

Christopher Horvers - JPMorgan - Analyst

Thanks very much and congratulations Anthony on your last conference call, going out with the bang for sure. So my first question is on the Gross Margin. Where did that come in relative to your expectations? It's interesting to hear you talk about upside and downside scenarios. Did Gross Margin come in better than expected? And I guess if you would have recast this year, would you have changed the gross outlook if we didn't have tariffs?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah. So the first quarter was a little bit better than we expected. Very difficult to answer the second part of your question given the evolving tariff situation that's going on.

Christopher Horvers - JPMorgan - Analyst

Understood. And then a two-parter, can you share with us what percentage of your products were under \$20 last year? And then, as you think about the potential disruption of the many independents in the toy industry, when would you expect to start to hear from retailers that, hey, Mattel, we need more product from you because we need more shelf, you need to take up more shelf space. Thanks very much.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah, I would say percentage of product at \$20 or below, slightly higher than the 40% to 50% range that we gave you. I mean, obviously as we consider price increases, some of these are going to move up, but we're very cognizant of price points, price gaps, promotional prices, the range that we have in our portfolio, everything from single die cast Hot Wheel to a Barbie Dreamhouse. So, we're very well positioned to provide consumers quality products, across a wide range of affordable price points.

Christopher Horvers - JPMorgan - Analyst

Thanks very much.

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

Thank you, Chris. Well, Anthony, thank you again for five years of excellent work and contribution and partnership on behalf of the team, the Board and all of our investors and analysts that I'm sure enjoyed working with you.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Thank you.

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

And thank you, everyone, for your questions today. I'll just say, in conclusion, we had a strong quarter, off to a strong start in the second quarter with growing consumer demand, quarter to date up double digits. Our brand portfolio, flexible supply chain and balance sheet are clear advantages for Mattel. And I hope this came through on this call in terms of our ability to respond and adapt with agility and strong execution. We're very good at managing complexities, and we expect to strengthen our competitive position in this process.

And finally, I would say that importantly, we are very committed, as we said on the call, to the uninterrupted supply of quality products at a wide range of affordable price points for children and families around the world and remain an important partner for retailers and families.

And now, I'll turn it back to the operator. Thank you.

Operator

Thank you. And ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.

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