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MAT.OQ - Q4 2025 Mattel Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Hello, and thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mattel, Inc. fourth-quarter 2025 earnings conference call. (Operator Instructions)

I would now like to turn the call over to Greg Gilbert, Investor Relations. Greg, please go ahead.

Greg Gilbert - *Mattel Inc - Investor Relations*

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

This afternoon we reported Mattel's fourth-quarter and full-year 2025 financial results. We will begin today's call with Ynon and Paul providing commentary on our results. After which we will provide some time for questions. (Operator Instructions)

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-K may differ as a result of the completion of the company's financial closing procedures, final adjustments, completion of the review by the company's independent 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 remind you that certain statements made during the call may include forward-looking 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 described some of these uncertainties in the Risk Factors section of our latest Form 10-K Annual Report, our Form 10-Q Quarterly Reports, our most recent earnings release and slide presentation, and other filings we make with the SEC from time to time, as well as in other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so, except as required by law.

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

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

Thanks, Greg. Good afternoon and thank you for joining Mattel's fourth-quarter and full-year 2025 earnings call. In addition to discussing our financial results, we have several strategic updates to cover, including our agreement to acquire full ownership of Mattel163 announced today, details on the evolution of our strategy, guidance for 2026, as well as mid-term expectations, and an update on our capital allocation priorities.

In the fourth quarter, we achieved 6% growth in Gross Billings, including 7% in North America and 4% Internationally. However, the growth in the US was less than anticipated, which impacted our full year-results relative to expectations.

2025 was marked by uncertainty in US trade dynamics that affected retailer ordering patterns for much of the year. After two challenging quarters where US retailers delayed orders, there was a significant acceleration in orders through most of the fourth quarter. December however ended up growing less than anticipated in the US and our full-year results finished below expectations.

The challenge was specific to the US while our International business performed in and with expectations, with growth in every region in the quarter. POS was positive in all regions, including the US, and grew approximately 3% overall for both the quarter and full year. Our supply chain excelled in a volatile environment, adjusting for the shift in shipping patterns from direct import to domestic fulfillment, and our teams effectively managed our owned inventory to finish the year well positioned for 2026.

As it relates to our full-year portfolio performance, Vehicles continued to grow strongly. Challenger categories combined grew, driven by outstanding performance in Action Figures, while Dolls and Infant, Toddler, and Preschool declined. Hot Wheels and UNO continued to perform strongly, and we saw improving trends in Barbie, which was flat for the quarter, although it declined for the year. Mattel Brick Shop had a very successful launch and is on its way to becoming an important growth driver for us.

We gain market share in 2025 in key categories, including Vehicles, Dolls, Action Figures, and Traditional Games. We ended the year with over $1.2 billion of cash after repurchasing $600 million of shares. With that, we have acquired more than $1.2 billion of shares in the last three years, representing approximately 18% of shares outstanding.

Given the strength of our balance sheet and cash conversion and confidence in our strategic plan, our Board has authorized a new program to acquire another $1.5 billion of shares, which we expect to complete by the end of 2028.

Today, we announced that we have reached an agreement with our joint venture partner, NetEase, to acquire full ownership of the Mattel163 Mobile Games Studio. Since its inception in 2018, Mattel163 has released four games based on Mattel IP with approximately 20 million monthly active users and over 550 million downloads worldwide. The acquisition values Mattel163 at $318 million with the purchase price of $159 million for NetEase's 50% interest.

More than half of the purchase cost is expected to be funded for Mattel's share of the JV's cash, which is not consolidated on Mattel's balance sheet. The transaction is expected to be completed by the end of the first quarter, subject to customary closing conditions and will be immediately accretive for the company, both strategically and financially.

The Mattel163 team has done remarkably well, building this business from the ground up and we look forward to welcoming them on board.

Our vision is to extend physical play to the virtual world by creating digital experiences and games based on Mattel IP that drives sustained engagement for fans of all ages. Acquiring full control of Mattel163 meaningfully advances our digital games business and will add significant development, publishing, and digital customer acquisition expertise.

Mattel will leverage Mattel163 capabilities to increase our mobile games output and enhance alignment with the broader Mattel product roadmap. Integrating Mattel163 with Mattel's digital business will create scale benefits in performance marketing and cross promotion, as well as greater synergy with Mattel brand marketing.

Our portfolio of iconic brands lends itself perfectly to the digital world. The acquisition is in line with our strategy to capture the full value of our IP in high margin, highly accretive entertainment verticals.

We also announced that Mattel has been awarded global multi-year rights to develop and market a full range of Teenage Mutant Ninja Turtles products starting in 2027, ahead of Paramount's two worldwide theatrical releases in 2027 and 2028. Teenage Mutant Ninja Turtles has been a global phenomenon for more than 40 years, and we're excited to have this franchise to our portfolio.

This significantly expands our Action Figures category and further reinforces our leadership position as a partner of choice to major entertainment companies and IP owners. Recent additions include KPop Demon Hunters with Netflix, DC with Warner Brothers, and the renewal of Disney Princess and Frozen, as well as ongoing partnerships for Jurassic with Universal, Minecraft with Microsoft, and WWE.

Our company's mission is to create innovative products and experiences that inspire fans, entertain audiences, and develop children through play. Our purpose is to empower generations to explore the wonder of childhood and reach their full potential.

Over the last few years, we have successfully broadened our reach outside of toys into accretive entertainment verticals and expanded to new audiences and fans, including adults. We are evolving our strategy to grow our IP-driven play and family entertainment business.

This brings together two important and fundamental concepts: The first is the continued expansion beyond physical product. We see content, licensing, and digital games as key high margin, growth drivers, and the acquisition of Mattel163 is an important building block of the strategy. The second is an increased orientation around brand management, which will allow us to capture full value of our IP across both toys and entertainment.

It is important to note that toys are foundational to Mattel and there is significant upside in this industry. We believe success in our toy business will drive success in entertainment, and success in entertainment will drive greater success in toys. We are looking to fully capitalize on this virtuous cycle.

Going forward, the five key priorities of our strategy are: to grow toy brands with more breakthrough innovation, adult fans and collectors, and evolved demand creation; to expand DTC and commercial reach to first-party data, retail development, and new channels; to broaden content offering in film, television, and short form; accelerate licensing and consumer products, location-based entertainment, and publishing, and expand with new business models; to scale digital play through mobile games self-publishing, Mattel163, licensing, and creator a platforms; and to optimize operations and leverage AI across our systems and supply chain.

Our new brand-centric organization and integrated operating model, supported by the Mattel playbook, will allow us to manage our brands more holistically and drive the success of our strategy. 2026 will be an important year for Mattel as we implement our new brand-centric strategy to grow our IP-driven play and family entertainment business. We expect growth to be driven by innovation in toys, major partnerships with leading IP owners, and an acceleration of our entertainment offering.

Vehicles as well as Challenger categories combined are expected to grow strongly, Dolls to be comparable, and ITPS to decline. Hot Wheels, UNO, and Mattel Brick Shop are expected to have another strong growth year. For Barbie, we expect improving trends for the year, driven by new line architecture and product innovation. We are very confident in Barbie's strength as one of the most recognized and beloved brands in modern culture and that it will return to growth in 2027.

We will benefit from strong partnerships with major entertainment companies and IP owners, including new launches for Netflix's KPop Demon Hunters, Disney and Pixar's Toy Story 5, and DC's Supergirl. Mattel Creations, our DTC platform serving adult fans and collectors with premium products, is expected to continue to perform strongly, in line with our strategy to further expand consumer demographics.

2026 marks an inflection year in our entertainment offering with two movie releases based on Mattel IP, Masters of the Universe on June 5th, and Matchbox on October 9th. The worldwide theatrical release of Masters of the Universe with Amazon MGM Studios will bring to the big screen one of the most iconic super-hero franchises in the industry.

The Matchbox movie with Skydance Media, will be distributed globally on Apple TV, introducing this heritage brand to a new generation of fans. And we expect to benefit from exciting momentum in digital play, including the release of our first two self-published digital games and the addition of Mattel163 to a growing digital portfolio.

As it relates to the toy industry, following mid-single-digit growth in 2025, we expect it to grow in 2026, with the benefit of a more toyetic theatrical slate and continued growth in adult consumers. Consistent with our capital allocation priority to drive organic growth, we plan to make several targeted, strategic investments in new capabilities and technology to scale business opportunities of approximately $110 million in 2026. These include digital games, which will be the largest area of investment, first-party data, DTC, and breakthrough toy innovation, as well as AI and infrastructure.

In addition, we are planning to invest approximately $40 million primarily in digital performance marketing and user acquisition for our two self-published mobile game launches where the ROI is measurable and can be adjusted up or down based on specific targets and results. These investment decisions follow a rigorous assessment that identified opportunities for capital deployment within our capital light framework in scalable, highly accretive, growth areas to create long-term value.

In aggregate, these investments will impact our bottom line in 2026, and then are expected to be high ROI and self-funding in 2027 and beyond, and drive accelerated growth and profitability. In 2027, we expect to achieve growth of mid- to high-single digits in Constant Currency in Revenue and double digits in Adjusted Operating Income. This growth will be driven by the benefits of our brand-centric strategy and organization, new partnerships, and the 2026 strategic Investments.

I will now turn it over to Paul to cover our financial results and outlook in more detail.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Thanks, Ynon. As you just heard, Gross Billings grew 6% in the fourth quarter, including 7% in North America and POS was positive across every region, including the US. However, US Gross Billings in December ended up growing less than we anticipated, impacting our full-year results relative to expectations.

Looking at what transpired in the US, trade-related uncertainty led retailers to shift orders from the second and third quarters into the fourth quarter, adopting a more just-in-time approach despite positive POS trends in Q2 and Q3. Entering Q4, POS continued to grow and retailer orders accelerated significantly ahead of the holiday season. However, while POS in the US ended positive for the quarter, December finished lower than anticipated.

In response, we took actions to manage owned inventory and support our retail partners, which had a larger-than-expected impact on margins and profitability. These dynamics were specific to the US market, while our International business grew in line with expectations in Q4.

Global POS was up approximately 3% for both the quarter and the full year. In looking at fourth quarter results, beginning with Gross Billings in Constant Currency, Mattel grew 6%. Dolls and Barbie were comparable. American Girl grew for the fifth consecutive quarter. Vehicles' impressive strength continued, growing 16%. Hot Wheels grew double digits, and Matchbox and Disney and Pixar's Cars performed well.

Infant, Toddler, and Preschool declined 10% due to continuing strategic exits in Baby Gear and Power Wheels, as well as Preschool entertainment. Fisher-Price declined modestly. Challenger Categories collectively grew 14%. Action Figures performed particularly well, driven by Jurassic, Minecraft, and WWE. Building Sets grew, driven by the very successful Mattel Brick Shop launch. Games also grew, primarily driven by UNO, which achieved its 10th consecutive quarter of growth.

Turning to the full year. Total company Gross Billings were comparable. Dolls declined 7%, primarily due to Barbie and Polly Pocket, partially offset by Wicked. Barbie's performance was impacted by softer overall category trends and headwinds from non-core segments, such as Mini BarbieLand. Vehicles grew 10% and Hot Wheels performed exceptionally well, growing double digits and achieving its eighth consecutive record year, while portfolio Vehicles momentum continued.

Infant, Toddler, and Preschool declined 18%, primarily due to Fisher-Price, Baby Gear, and Power Wheels. Challenger categories collectively grew 13%, driven by very high growth in Action Figures, which benefited from the strong performance in Jurassic, Minecraft, and WWE. Mattel Brick Shop performed very well in its launch year and is becoming a key part of our offering.

Turning to Gross Billings by region. We achieved growth in each region in the fourth quarter. For the year, North America declined due to the US, while International grew 4%. In the quarter, total company Net Sales were $1.77 billion, up 7% as reported, and up 5% in Constant Currency. For the year, Net Sales were $5.35 billion, down 1% as reported and in Constant Currency.

Moving down the P&L, Adjusted Gross Margin in the fourth quarter was 46.0%, a decline of 480 basis points, primarily due to higher discounting, inflation, and foreign exchange, as well as the timing lag between pricing actions and the recognition of tariff costs in the P&L. These pressures were partially offset by Optimizing for Profitable Growth cost savings. Given trends in the US in December, we took steps to manage our owned inventory, including an increasing promotional activity, which impacted our margins.

For a full year, Adjusted Gross Margin was 48.9%, a decline of 200 basis points. The same factors that impacted the fourth-quarter Gross Margin impacted a full-year Gross Margin. However, pricing and other mitigating actions fully offset tariff costs on a full-year basis have the benefits of those actions were realized over time. Mitigating actions included accelerating the diversification of our supply chain, optimizing product sourcing and product mix, and selective pricing actions.

Fourth-quarter Advertising expenses decreased 1% and Adjusted SG&A expenses decreased 5%. For the full year, Advertising increased 3% to support consumer demand, while Adjusted SG&A decreased 1%. Adjusted Operating Income in the fourth quarter was essentially flat at $160 million. For the full year, Adjusted Operating Income was $620 million, a decline of 16%, primarily due to lower gross profit.

Adjusted EBITDA in the fourth quarter was $234 million as compared to $249 million. For the full year, Adjusted EBITDA was $927 million as compared to $1.06 billion. Adjusted Earnings per Share in the quarter increased from $0.35 to $0.39, primarily benefiting from share buybacks and certain one-time discrete tax items. For the full year, Adjusted EPS decreased from $1.62 to $1.41.

Free cash flow generation was $411 million for the year, as compared to $598 million in the prior year. The decline is primarily due to lower Net Income. Cash from operations was $593 million compared to $801 million in the prior year. We repurchased $188 million of shares in the quarter, bringing full year repurchases to $600 million, in line with our target. As Ynon said, since resuming share repurchases in 2023, we have now bought back more than $1.2 billion of shares, reducing our shares outstanding by approximately 18%.

Cash at year end was strong at $1.24 billion after completing $600 million in share repurchases. Owned inventory at the year-end was $563 million, a modest increase versus prior year, primarily reflecting tariff-related costs and impact from foreign exchange. Long-term debt was consistent with prior year at $2.33 billion. Our leverage ratio was 2.5 times, within our target range of 2 to 2.5 times per our capital allocation priorities.

Our balance sheet is in a strong position with the next debt maturity in December 2027. Retailer inventories finished lower in absolute terms as compared to the prior year. We continue to execute on our Optimizing for Profitable Growth program. Fourth-quarter savings totaled $24 million, bringing full-year savings to $89 million and cumulative savings of $172 million already achieved since we launched the program in 2024.

We are tracking ahead of our three-year $200 million-savings target, and we are now projecting approximately $50 million of savings in 2026, bringing the total target of the program to $225 million of savings. We are also executing on our multi-year capital allocation priorities to drive long-term shareholder value. Consistent with our first priority to invest in organic growth, as mentioned, we plan to make several strategic, capital light investments totaling approximately $110 million in 2026 to drive growth in future years.

In addition, we plan to invest approximately $40 million this year, primarily to support our two self-published mobile game launches. These targeted investments are expected to impact our bottom line in 2026 before driving incremental revenue and profit starting in 2027.

On our second priority to manage our capital structure, we continue to benefit from a strong balance sheet. In the fourth quarter, we refinanced $600 million of debt and maintained our investment-grade rating. On our third priority, to pursue external development opportunities, we just discussed our agreement to acquire full ownership of Mattel163, which will be accretive both strategically and financially.

In terms of our fourth priority, to buy back shares, we have repurchased $1.2 billion of shares over the last three years, representing approximately 18% of shares outstanding. Mattel intends to repurchase $1.5 billion of its common stock over the next three years, including $400 million of shares in 2026. The timing and amount of repurchases in any one year will be determined by market conditions and other uses of cash.

As we look ahead to 2026, we expect Net Sales growth in the range of 3% to 6% in Constant Currency, which includes the expected partial year contribution from Mattel163. At current spot rates, FX would be a tailwind of approximately 1.5% points on reported Net Sales.

In terms of cadence, we expect a low single-digit decline in the first quarter, given the continued shifts from direct import to domestic orders in the US and the timing of the launch of new product lines. Adjusted Gross Margin of approximately 50% for the full year. This includes savings as part of our Optimizing for Profitable Growth program and the benefit of the margin-accretive digital games that we are launching in 2026, partially offset by product cost inflation, and the net diluted impact to Gross Margin percentage of the tariff costs versus related mitigating actions.

Adjusted Operating Income of $550 million to $600 million. This includes the impact of approximately $110 million of the strategic investments and $40 million primarily in performance marketing. And Adjusted Tax Rate of approximately 24%. And Adjusted EPS in the range of $1.18 and $1.30. Mattel's guidance considers what the company is aware of today, but it's subject to market volatility, unexpected disruptions, including further regulatory actions impacting global trade and other macroeconomic risks and uncertainties.

Here is more color on key growth drivers for 2026, by category. Dolls is expected to benefit from the new KPop Demon Hunter's product, which will ship in the spring. Vehicles is positioned for another year of strong growth, with Hot Wheels continuing to benefit from expanding kid and adult audiences, top partnership with licensing deals, and innovation in track and play sets. Mattel Studio's Matchbox film will be supported by sales of related toy and consumer product, while Disney and Pixar's Cars will celebrate its 20th anniversary with a range of executions.

Infant, Toddler, and Preschool is expected to decline and have a 2% to 3% headwind to our total Gross Billings. For the year, we expect a significantly smaller impact of Baby Gear and Power Wheels as we lap the majority of our strategic exits, while Thomas is expected to benefit from its fall relaunch.

ITPS is an important category in the toy industry. And Fisher-Price is a clear market leader. Given the headwind, we're actively assessing our ITPS strategy and business to ensure it is best positioned to achieve its full potential.

Challenger categories collectively are expected to grow, primarily in Action Figures with key drivers being: Mattel Studios' Masters of the Universe, Disney and Pixar's Toy Story 5, the addition of the DC license in the back half of 2026, and continued contribution from WWE, among others.

In addition, we expect Games to grow, driven by the new launches for UNO and for Building Sets to benefit from the promising expansion of Mattel Brick Shop. As mentioned, we also expect to benefit from our scale digital play strategy, including the partial year addition of Mattel163.

With that, I will turn it back to Ynon.

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

Thank you, Paul. We achieved strong top-line growth in the fourth quarter and consumer demand was positive in every region for both the quarter and full year,but December Gross Billings in the US ended up growing less than expected. Our International business was positive for the year and we gained market share in key categories globally.

2026 will be an important year for Mattel as we implement our new brand centric strategy to grow our IP-driven play and family entertainment business. We expect growth to be led by innovation in toys, major partnerships with leading IP owners, and an inflection in entertainment, with two movie releases in and an expansion of digital games, amplified by the full acquisition of Mattel163 mobile games Studio. We're making strategic investments that will impact the bottom line this year but are intended to accelerate growth in top and bottom lines in 2027 and beyond

I will now pass it to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

Arpine Kocharyan, UBS.

Arpine Kocharyan - *UBS AG - Analyst*

I was wondering if you could unpack a little bit the revenue guidance. It seems like underlying growth is flat to up about 3% because JV integration adds around, by my calculation, about 3% of year-over-year growth.

I guess, could you explain what the lower end versus the higher end entail? Because it's a bit lighter than expectation given the strong film slate that you have both third-party IP as well as owned as, well as new licenses for this year? And then I have a quick follow-up.

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

Here, Can you hear me better now?

Arpine Kocharyan - *UBS AG - Analyst*

Yes. I can hear you now.

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

Sorry, sorry. I was saying thank you for the question. We put together a plan for 2026 and expect to achieve 3% to 6% growth in Constant Currency. There are several drivers that we talked about in the prepared remarks, but I would highlight a few.

The -- first of all, it will be an important year for Mattel as we roll out our entertainment strategy -- or inflecting our entertainment strategy as part of our new brand-centric strategy to grow our IP-driven play and family entertainment business. We expect to grow in toys with a lot of new innovation, major partnerships with leading IP owners, and more growth in digital games, specifically self-publishing, as well as the integration and full ownership of Mattel163.

The key drivers by category will be Vehicles and Challenger category as a whole, driven primarily by Action Figures and Games, as well as Mattel Brick Shop, which will scale quickly within the Building Sets category.

We are seeing growth expected to come from Hot Wheels, UNO, which are very strong drivers, another strong year for these two very important brands for us. The major entertainment partnerships that we are scaling will be with KPop Demon Hunters, Pixar Toy Story -- this is Disney and Pixar's Toy Story 5, and DC's Supergirl.

Also, I would highlight that we expect to see growth from Mattel Creations, our DTC platform which serves adult fans and collectors with premium product. This will be another important year for us to scale that business.

And of course, we're very excited with the two movie releases based on our IP, Masters of the Universe in June, and Matchbox in October. Masters of the Universe particularly is expected to be very toyetic. Movie is tracking well. Too early to tell, of course, and you don't know until the movie is out. But so far, we couldn't be more excited with where the movie is positioned and the momentum we have heading into the year.

Arpine Kocharyan - *UBS AG - Analyst*

Great. And then it sounds like most of the $150 million of reinvestment you have to make is in OpEx. This is around a quarter of earnings base for you. It's a significantly large investment. You talked about these investments will become self-funding with high ROI starting in 2027.

Can you maybe talk about what gives you confidence about returns as early as next year?

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

Yeah. So this is very consistent with our capital allocation priority. In fact, the number one priority is to drive organic growth, and this is exactly what we are doing here. We are putting capital behind very specific, targeted opportunities where we see high ROI, high-margin opportunity to scale these businesses. And we expect all of these investments in aggregate to be profitable and accretive and contribute to bottom and top line in 2027.

I would also say that these investments in areas like first-party data, DTC, breakthrough toy innovation, AI and infrastructure that will support -- and some of it will support specifically our Challenger categories where we see white-space opportunities such as Mattel Brick Shop, in Building Sets, investments in the Games category and more expansion with adult fans and collectors.

These investments are flexible, very much in line with our capital-light strategy. We can modulate these investments and put more money to work when we see opportunities or conversely, adjust downwards if we don't see the return.

But this entire plan follows a very rigorous assessment of these investments where we prioritize areas where we see asymmetric opportunity in terms of risk or level of investment relative to the upside. So we're going into this very excited. Yes, it will impact our bottom line in 2026, but we expect it to be highly accretive to both bottom and top line in 2027 and beyond.

Operator

Eric Handler, ROTH Capital.

Eric Handler - *Roth Capital Partners LLC - Analyst*

Ynon, I wondered if you could talk a little bit about the learnings that you're taking away from your partner, NetEase, and why you felt now was the right time to buy in that part of the joint venture?

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

Sure, Eric. I should start and say that this is a very important strategic acquisition for Mattel. As you know, it's the first acquisition that we've done since we started the turnaround. And the reason it's important is that it is going to be something that will help us accelerate and scale a very important part of our digital strategy in self-publishing.

The -- we've seen the growth of Mattel163. We've talked about it before. It was a very clear demonstration of the strength of our brands in the digital space when executed well. And we've been seeing the growth of the JV, both in top line and profitability, based on just three brands -- four games based on three brands, very strong growth and high margin.

And the acquisition of Mattel163, or the taking full ownership will meaningfully advance our capabilities, expertise. It will give us the ability to scale our business across both Mattel163 and our self-publishing initiative. It will help us grow the output. It gives us economies of scale, more synergy, more opportunities for cross promotion and a holistic management of the games that we are releasing into the market.

And all of that is as part of expanding beyond physical play. It will allow us to capture full value of our IP in a high-margin, high-growth, highly accretive entertainment vertical. And when you do that and you build on top of the relationships we have already with strong publishers, such as Take-Two, Xbox, SuperCell, Netflix, Apple Arcade, high-margin licensing business as well as all of the work we're doing with the creative platform such as Roblox and Fortnite. It's becoming an exciting growth driver for us as part of our entertainment strategy.

Let me just add that -- Eric, just one more comment on Mattel163. We said in the prepared remarks, and I want to emphasize that this is a highly accretive deal already upon closing immediately, both financially and strategically. The acquisition itself, the transaction, we believe, is very favorable for Mattel. And as we mentioned, more than half of the acquisition cost is paid by cash that is sitting on the balance sheet of the JV, not on the Mattel balance sheet. So the actual cash outlay by Mattel is not significant, especially relative to the strategic value that we will generate from this acquisition.

Eric Handler - *Roth Capital Partners LLC - Analyst*

Okay. And then just as a follow-up. I'm assuming the two games you have coming later this year are probably beta testing in a handful of international markets right now. Can you maybe talk about how those are going and when you think these games might see a full-scale launch?

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

Yes, we are targeting soft launch in the first six months of the year. With all these things, it's hard to tell until you're actually in the market. But so far, all the testing that we're doing and all the work that the team is driving, all of this looks very positive.

But again, it will all be tested in real time. But so far, very happy with the progress. Games look great. They're testing well, and we're very proud of what we're seeing so far.

Operator

James Hardiman, Citi.

James Hardiman - *Citi Infrastructure Investments LLC - Analyst*

So I was hoping maybe we could just rewind a little bit. And maybe any color you could give us on what you saw in December? Obviously, as of early December, it seemed like you were ultimately going to hit the number. Maybe as we think about retail, just how bad was the December performance?

And then as we think about wholesale and ultimately inventory, trying to figure out if you finish 2025 in a position where there's cleanup to be done in 2026 just given sort of the sharp terms of retail. I don't know if as we think about the 2026 guidance, if there's some sort of cleanup involved in that number?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, James, let me take that question. So let me just state very clearly that it's all about December in the US, not growing as much as we expected. As simple as that.

We expected strong growth in December, and we did see the growth in December, but it was less than anticipated in the US, and our full-year results finished below expectations. We also saw a more promotional environment than usual. Given the trends in the US in December, we took steps to manage our owned inventory, including an increase in promotional activity. And that impacted our margins, but it positions us well for 2026.

Let me put this in context for you. POS was positive across every region, including the US, in Q4 and for the full year. The total company POS grew 3% for both the quarter and the full year. And then specifically, entering -- if we take a step back, 2025, as we know, was a very unique year that was marked by uncertainty in the US trade dynamics, and that affected retailer ordering patterns.

So you had a specific question, what happened in December? We entered the fourth quarter, and we saw an acceleration of retail orders and continued POS growth that gave us confidence in achieving our full-year guidance.

And remember that December is historically the biggest month of the year for POS. But because of the shift in retail ordering pattern this year, orders were more back-end loaded and the volume of orders expected in December was significantly higher. In December, POS in the US finished lower than anticipated, and the retailers managed inventory more conservatively than we anticipated.

On the positive side, having taken all those actions, we are in a good starting position for 2026 when it comes to our owned inventory and through the promotional activities that we put in place. We also worked with the retailers to make sure that we have a balanced, good starting position from a retail inventory perspective as well. So all these actions helped us have a good starting point for 2026.

James Hardiman - *Citi Infrastructure Investments LLC - Analyst*

That's helpful. And I guess along those lines then, obviously, 2026, as we think about your operating income guidance or your EPS guidance, is significantly short of, I think, where -- the Street was thinking. A big part of that are the investments that you guys are going to be making. But I guess if I think about 2026 as a transition year, I think you said 2027, maybe a double-digit operating income growth next year. But I'm still not sure that gets us back to even where we thought 2025 would be.

So I guess maybe talk to the idea that not only is the 2026 guidance feel like it's meaningfully worse than we would have thought a few months ago. But even sort of beyond 2026 feels like it's been downgraded to some degree based on some of the numbers that you've given. Is there something big picture that we haven't talked about yet that would lead to such a sort of downward revision?

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

Yeah. James, the outlook we provided for '27 is directional. When we talk about -- excuse me, double-digit growth in profitability is directional. And of course, we'll give you more information as we get closer to the start of '27.

That said, the investments we are making in '26 are -- we believe will be highly accretive, as we said, and will help us drive the meaningful growth both top and bottom line in 2027 and beyond. So yes, we are -- we're going to see one-year impact in bottom line given these investments. But they're all -- we believe, not just get us back to normal, but will help us accelerate growth in top line and profitability.

And this is on top of all the other things that we are doing as part of our day-to-day in innovating in toys, growing our entertainment business, continuing to strengthen the company with more partnerships, entering new white-space opportunities and driving operational excellence. We expect to be back at the 50% Gross Margin level in '26. And we haven't guided to anything beyond that, but we do expect to see numbers and financials improving in '27 and beyond.

The investments are designed to accelerate growth, not to underpin growth. And that will help us execute our strategy at a faster rate. And again, very much in line with our capital allocation priorities, with the number one being investing in organic growth. So we've had that as the number one priority on the list for a number of years. And we actually are now doing it, having identified very clear, measurable, high ROI, high-margin, exciting opportunities for us to accelerate growth.

Operator

Gerrick Johnson, Seaport Research Partner.

Gerrick Johnson - *Seaport Research Partners - Analyst*

A couple of questions here. First, can you give us -- or how are you thinking about Masters of the Universe and Matchbox in your guidance? And maybe could you give us any sort of metrics or assumptions or guideposts that would help us modeling those?

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

Yeah. Gerrick, the Masters of the Universe movie will be a large global theatrical release. The movie will be toyetic. It will be, in fact, I would call it, having seen the director's cut, very toyetic. And the testing, also testing that we've seen so far is very positive. And again, I would caution and say you don't know until the movie is actually in market, but it's shaping up to be a very exciting movie. A big event, big production, superhero, coming of age, incredible story. So we're very proud of the movie.

Travis Knight, the director, is a big fan himself. And the way he designed and brought this movie to life, we believe will speak to both the die hard, generational fans, all the way to new audiences, young audiences that never seen the He-Man before. So we're very excited about that.

Matchbox will be released on Apple TV. So it will not have the theatrical exposure, but it's a great action movie. John Cena in the lead is just incredible. It's a great cast. Sam Hargrave, the director, also did a masterful job in putting together a super exciting action movie. And there's a whole line of toys that will accompany the movie release. So we're very excited about both.

Beyond the movies themselves, we are excited because when Masters of the Universe comes out, you will see the breadth of our offering. From the Pink world of Barbie, all the way to the dark world of Eternia and everything in between. And just the breadth of the genre and the execution, we believe will be very, very telling.

So I'm not -- I guess I'm not giving you specific numbers for modeling, but I'm trying to give you color on the opportunity and the potential of these two pictures.

Gerrick Johnson - *Seaport Research Partners - Analyst*

Yeah. Okay. All right. Okay. Did you say that first quarter revenue is going to be down low single digits, is that right?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yes, Gerrick, that is in fact what I said, we expect a low single-digit decline in the first quarter given the continued shift from direct import to domestic orders in the US and the timing of the launch of new product lines.

Operator

Kylie Cohu, Jefferies.

Kylie Cohu - *Jefferies LLC - Equity Analyst*

Just kind of pivoting back to holiday for a moment. I'm curious how products under $20 performed relative to the big ticket items? And just kind of any read-throughs on the customer behavior and kind of customer health heading into 2026?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah. I can take that question, Kylie. We saw an elevated retail promotional environment in Q4. And what we did is we took actions to manage the inventory, both our owned inventory and also to support our retail partners, which had a larger than anticipated impact in our margins and profitability.

In general, for 2026, we expect to continue to see a promotional environment, and we are factoring this into our guide. But very specifically, what we saw in December was a more promotional-driven environment and a price-sensitive consumer looking for deals. And we reacted on a timely basis. That's what we've been doing season after season, and we did that to make sure that we have the right starting point from an inventory perspective for both us and our retailers.

Kylie Cohu - *Jefferies LLC - Equity Analyst*

Awesome. That's super helpful color. And then just a follow-up on that. How would you classify retail inventory levels now? I know you said that they were being conservative during the holidays, but just kind of curious.

Are they continuing to be conservative, we're not kind of going to get a build back of that? How should we kind of think about the health of the market right now?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah. Retail inventory is lower in absolute terms compared to prior year. So that's why we mentioned that the retailers are much more cautious in terms of inventory management. And we do continue to see a shift from DI to domestic into 2026.

So we are observing those behaviors and the impact on our shipping carefully. And we are taking the learnings from 2025 and making sure that we have the proper plans in place to continue to drive growth.

Operator

Megan Alexander Clapp, Morgan Stanley.

Megan Alexander Clapp - *Morgan Stanley - Analyst*

Just had a couple of questions on SG&A. I wanted to start with, if I look at the implied SG&A guide for '26 and then think about the investments that you called out, I think the guide implies kind of core SG&A growth, if I take out the $150 million of investments of like high-single digits year over year, which, I guess, just feels a bit high to me relative to what you're expecting for the top line and considering you still have some tailwinds from your cost savings program.

So Paul, maybe you could just start with just helping us understand as we think about kind of that underlying core SG&A guide, what's embedded in that?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah. We did not necessarily provide specific guide on SG&A, to be clear. What we talked about is that we are putting in place strategic investments to accelerate our profitable growth for 2026 and in '27 and beyond. So the majority of those investments are in the SG&A line. And we talked about the $110 million of investments in digital games. And we also talked about the $40 million in digital performance marketing that we are controlling the ROI is measurable.

We went through a thorough and very rigorous assessment process to make sure that they have a high return on investment. So all of those investments are going to be something to consider in 2026, but you will see the return in 2027 and beyond because these are self-funding and will drive accelerated growth and profitability in '27 and beyond.

Megan Alexander Clapp - *Morgan Stanley - Analyst*

Okay. Fair enough. Maybe just as a follow-up there, I know Arpine asked about it, but when you say these investments become self-funding, does this imply a net positive contribution to operating income? Or simply that kind of incremental spend moderates as revenue scale?

I'm just trying to understand with this, the $110 million in particular, is that just structurally higher in the base coming out of '26? Or do we kind of get any of that back as maybe some of these costs roll off?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

It's the former. It's the former, okay, Megan? And we are expecting those investments to be self-funding in 2027 and beyond and drive accelerated growth in profitability.

Operator

Stephen Laszczyk, Goldman Sachs.

Stephen Laszczyk - *Goldman Sachs Group Inc - Analyst*

Maybe as a follow-up on Mattel163, for Ynon. Could you perhaps talk little bit more about how you expect the strategy to evolve over time -- from where it's at today, perhaps in terms of the output of the studio or the type of game the studio can produce?

And maybe as a part of that, are there any additional investments you feel like need to be added into the studio or funding for capabilities to go after the opportunity you have in mind when making this acquisition?

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

Yeah. Stephen, the -- what is unique about mobile games is that for a relatively low amount of investment, you can develop high-quality games without owning necessarily heavy production capabilities. So the capital invested in those games, we regard as light.

What is more capital intensive is user acquisition. But in today's world, this is all performance marketing with a very clear ROI, and you only spend the money to the extent you know it will achieve the results you're targeting.

There is a lag in terms of investment when you -- relative to when you actually see the return, but it's very -- it's highly measurable and you have clear visibility into the expected return. We talked about publishing two -- one to two games per year. We are already, as we said, targeting two games in 2026. We expect that the acquisition will increase the output, of course, give us more scale in capabilities, resources, expertise and at the same time, give us a built-in, very high-quality team that can help us accelerate our business overall.

So this is really about scale. It's about benefit, leveraging the combined resources and assets. It's about the cross promotion and holistic management of our brands together and as part of our brand-centric strategy.

The one thing that we didn't really cover here, even though we mentioned today, is our brand-centric organization. This will be -- this is really a new way of how we think about what we do and how we do that. It's about holistic management of our brands in order to capture value across both entertainment and toys and creating a virtuous cycle where one feeds off the other.

And it also helps us focus even more sharply on expanding beyond physical product. And so when you bring it all together, more scale in digital games, more resources, more capabilities, more expertise managed as part of a holistic brand management approach, we believe will benefit not just digital, but also the toy business. And that's how you achieve the -- you really create this virtuous cycle.

The -- as we said, the deal will be immediately accretive. The acquisition of Mattel163 will be immediately accretive, both strategically and financially. It will be -- we expect it will be highly accretive going forward. And happy with the terms of the deal that made it even more attractive, putting aside all the strategic benefits that we will drive.

Stephen Laszczyk - *Goldman Sachs Group Inc - Analyst*

Great. And then Paul, just quickly, I wanted to see if there is any more help you can maybe give investors on the trajectory of margins throughout the year, just given your expectations for the underlying business? And then some of the investments you're making in the cost structure, anything directionally would be helpful?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah. Happy to do that. So first of all, on the Gross Margin line, we do expect the return of Adjusted Gross Margin to approximately 50% in 2026. And that includes our OPG savings, the discipline that we constantly display in terms of cost management, the benefit of margin-accretive digital games that we're launching in 2026. And that will be partially offset by product cost inflation and the net dilutive impact of Gross Margin percentage to the tariff costs.

But the important thing is keep in mind, we are aiming for 50% Gross Margin in 2026. And then when it comes to 2027 and beyond, the investments are going to deliver on the returns, and we are expecting to see profitable growth, i.e., an acceleration in growth and profitability as well.

Operator

Chris Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

I'll squeeze them both in at the same time here. Can you talk a little bit about Barbie? I mean, if you think about the sort of magnitude of the shift to the fourth quarter of orders, it was up slightly year over year and not compensated for the declines in the third quarter. What are you thinking about like the innovation? And when would you expect Barbie to return to growth?

And then my modeling question is basically, can you talk us through the dynamics of how the acquisition will play out in terms of grossing up revenues and how that affects the margin structure and of the business post acquisition?

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

Sure. Thank you, Chris, for the question. The -- Barbie saw improving trends in the fourth quarter. It was flat, although down for the year. It was impacted, as we said, by category trends -- overall category trends in some noncore segments such as Mini BarbieLand.

With that, Barbie is the number one doll in the industry, has been so for the last five years. And we could not be more confident in Barbie's strength as one of the most recognized and beloved brands in modern culture. And that it will return to growth. And we guided for Barbie to be down in '26, although we will see improving trends and then it will return to growth, healthy growth in 2027.

There's -- a big part of our new brand-centric organization was keeping Barbie in mind and making changes that will put our best team and resources behind the brand. Barbie as a brand is healthy and poised for growth.

When we launch a new doll or a new experience or a partnership, it's a cultural event. And we know how strong Barbie is. It really is about repositioning it for growth, executing our brand-centric strategy and having multiple touch points around the brand, not just in toys, but around entertainment with more content, experiences, games and other ways to drive fan engagement. And at the same time, also continue to broaden the demographics with adult fans and collectors.

So very confident about Barbie's long-term growth trajectory, and we'll share more at the upcoming New York Toy Fair even for 2026. But given the time lag and the putting new product in market, it will take a bit of time until we see the result of this work. But very confident about Barbie.

In terms of the acquisition, I will let Paul address that, how do we consolidate the acquisition.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Thank you. So in terms of the acquisition, as we mentioned in the release, we expect in 2026, a partial year contribution of about $150 million in sales. And going forward, the equity method investment will disappear from Mattel's P&L. Royalties will be replaced by full-year revenue recognized by the JV. But more importantly, Mattel163 financials will be integrated into the business.

We will not be providing specifics on Mattel163. And we -- this is part of our integral digital game strategy that is accretive from a top line and also from a margin perspective.

Operator

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

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

Thank you, operator. In closing, 2026 will be an important year for Mattel. It is an important year for Mattel already, and we will see growth in top line while we are investing to accelerate growth in future years. These investments will help us accelerate the work that we're already doing. And we believe we'll be -- we'll see the results in 2027 and beyond.

There's one other thing I would like to call out, which we didn't really mention on the -- in the Q&A is our share repurchase program of $1.5 billion that we expect to execute in the coming three years. This obviously reflects not just our cash position, our cash flow generation, but also confidence in our plan and our ability to create long-term shareholder value while we continue to drive growth, both top and bottom line.

And with that, I thank you all for joining us today, and we'll talk again soon. Thank you.

Operator

Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.
