LSEG STREETEVENTS

EDITED TRANSCRIPT

MAT.OQ - Q1 2026 Mattel Inc Earnings Call

EVENT DATE/TIME: APRIL 29, 2026 / 9:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Jenn Kettnich *Mattel Inc - Vice President, Head of Investor Relations*

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

Paul Ruh *Mattel Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Megan Clapp *Morgan Stanley - Analyst*

Arpine Kocharyan *UBS AG - Analyst*

James Chartier *Monness Crespi Hardt & Co Inc - Analyst*

Stephen Laszczyk *Goldman Sachs Group Inc - Analyst*

Eric Handler *Roth Capital Partners LLC - Analyst*

Anthony Bonadio *Wells Fargo Securities LLC - Analyst*

Kylie Cohu *Jefferies LLC - Equity Analyst*

Gerrick Johnson *Seaport Research Partners - Analyst*

Christopher Horvers *JPMorgan Chase & Co - Analyst*

James Hardiman *Citi Infrastructure Investments LLC - Analyst*

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. first-quarter 2026 earnings conference call. (Operator Instructions)

I would now like to turn the call over to Jenn Kettnich, Vice President and Head of Investor Relations for Mattel.

Jenn, please go ahead.

Jenn Kettnich - *Mattel Inc - Vice President, 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 Paul Ruh, Mattel's Chief Financial Officer.

This afternoon, we reported Mattel's first-quarter 2026 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. 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 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 describe 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, Jenn. Good afternoon, and thank you for joining Mattel's first-quarter 2026 earnings call. We are off to a good start to the year with growth in Net Sales and positive consumer demand for our products in the first quarter. We continued to make progress on our strategy to grow our IP-driven play and family entertainment business and are seeing top-line acceleration in the second quarter to date.

Key financial highlights for the quarter as compared to the prior year. Gross Billings grew 2% in Constant Currency, with increase in Vehicles and Challenger categories overall, partly offset by a decrease in Dolls and Infant, Toddler, and Preschool. Net Sales grew 4% as reported and 1% in Constant Currency and Adjusted Earnings per Share declined $0.18. Per Circana, Mattel was number one globally in our leader categories: Dolls, Vehicles, and Infant, Toddler, and Preschool and gained share in Vehicles and Action Figures.

We also executed on our capital allocation priorities, including closing the acquisition of full ownership of Mattel163 mobile game studio and repurchasing $200 million of shares in the quarter, while maintaining a strong balance sheet. The toy industry grew in the first quarter, and we continue to expect it to grow in 2026, with the benefit of a toyetic theatrical slate and further expansion of adult consumers.

As it relates to current geopolitical events, including the war in the Middle East, there has been minimal impact on our business to date, but we continue to monitor the situation and hope for a swift resolution and peaceful days ahead.

Turning back to our portfolio performance in the quarter. Several standout brands grew double digits or higher across owned brands, including Hot Wheels, UNO, and Monster High, partner brands such as Toy Story and WWE, relaunched franchises like Masters of the Universe; and innovative new product lines like Mattel Brick Shop.

We are making strong progress on our digital strategy, including the integration of Mattel163 as well as the upcoming launch of our first two self-published mobile games. Acquiring full control of Mattel163 meaningfully strengthens our digital games business and adds significant development, publishing, and digital customer acquisition expertise.

As it relates to self-published mobile games, our first game is based on Masters of the Universe and currently in soft launch ahead of the theatrical movie premiere on June 5th. The second game is in advanced development and targeted for release later this year. We plan to share more details soon.

We are also expanding our presence on creator platforms. UNO-branded digital game experiences were launched on Roblox and Fortnite with strong reach and engagement, and our Barbie DreamHouse Tycoon Roblox game continues to rank in the top 10 among hundreds of branded games on the platform.

Our digital game licensing business contributed to overall growth in the quarter and benefited from partnerships, including Pictionary with Netflix and Scrabble with Scopely. The upcoming Masters of the Universe movie will be released with wide distribution in thousands of theaters globally. A robust multi-platform marketing campaign spanning digital, out-of-home, and strategic brand partnerships is underway, led by Amazon MGM and Mattel. A full cross-category product line across toys, adult collectibles, apparel, publishing and more began rolling out this past weekend. We are very excited to bring this classic mythology to life on the big screen and reimagine the franchise for original fans and a whole new generation. We are also gearing up for the Matchbox movie in October and have a robust slate of films in development, including Hot Wheels, Polly Pocket, Barney, and Rock 'Em Sock 'Em Robots, among others.

As we've shared, we're making strategic investments totaling approximately $150 million in 2026 to drive accelerated growth and profitability consistent with our capital allocation priorities. These investments are designed to allow us to capture even more value from our IP faster, such as in self-published mobile games, building sets, DTC, first-party data and technology and infrastructure. We believe these investments in aggregate will have high ROI with a net positive contribution to the bottom line in 2027 and beyond.

Before I turn it over to Paul, I would like to touch on the recent leadership announcement that Steve Totzke, President and Chief Commercial Officer, will step down from his role effective May 1st, and Sanjay Luthra, Managing Director of EMEA and Global DTC, will succeed Steve as Chief Commercial Officer, overseeing Mattel's global sales and commercial operations.

We thank Steve for his many contributions, and I'm personally grateful for his years of partnership. Sanjay is a 23-year Mattel veteran. In his most recent role, he has steered EMEA's transformation to achieve record sales and growth and expanded Mattel's leadership across the region in key categories. We look forward to his impact on driving our strategy to grow our IP-driven play and family entertainment business.

Over to you, Paul.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Thanks, Ynon. As you just heard, we're off to a good start to the year. Looking at key financial metrics, as compared to the prior year quarter, Net Sales grew 4% as reported and 1% in Constant Currency to $862 million, ahead of expectations. Adjusted Gross Margin declined 450 basis points to 45.1%, primarily due to the gross cost impact of tariffs that we previously mentioned as part of our guidance, as well as unfavorable foreign exchange and inflation. And Adjusted Earnings per Share declined by $0.18 to a loss of $0.20.

Turning to Gross Billings in Constant Currency. Total Gross Billings grew 2%, with Mattel's global POS up mid-single digits. Vehicles' momentum continued with a 13% increase. Hot Wheels and Disney and Pixar's Cars each grew double digits. Dolls declined 11% due to Barbie, partially offset by growth in Monster High. American Girl was comparable. Infant, Toddler, and Preschool declined 18%, primarily due to Fisher-Price. Within Fisher-Price, Little People grew double digits. Challenger categories collectively increased 17%. Games grew led by UNO, including the benefit of the partial quarter contribution of Mattel163. Action Figures growth was driven by a robust slate of owned and partner properties. Mattel Brick Shop also performed exceptionally well as it continues to expand following a successful launch.

As it relates to Gross Billings by region, International was up 8% with growth in each of EMEA, Latin America, and Asia Pacific. North America declined 4%, including the impact of the shift in US retailer ordering patterns from direct import to domestic shipping. Based on what we are seeing today, we believe US retailer ordering patterns are stabilizing and expect our North America region to grow in Q2.

Moving down the P&L. Adjusted Gross Margin in the first quarter was 45.1%. The decline was due to the impact of, 240 basis points from the gross incremental cost of tariffs, 140 basis points from unfavorable foreign exchange, and 90 basis points from inflation. Going the other way, tariff mitigation actions and OPG savings, partially offset by several factors contributed a benefit of 30 basis points.

Advertising expenses increased $23 million to $93 million, reflecting the timing of Easter this quarter and the inclusion of Mattel163 expenses. Adjusted SG&A expenses increased $19 million to $366 million, primarily due to the strategic investments previously discussed. As mentioned in our earnings press release, beginning in fiscal 2026, we are excluding the impact of amortization of acquired intangible assets from non-GAAP measures to facilitate period-over-period comparisons of underlying business performance and have also recast these non-GAAP financial measures for prior periods.

Adjusted operating income was a loss of $70 million as compared to a loss of $8 million in the prior-year period, primarily due to higher advertising expenses, lower Adjusted Gross profit, and higher Adjusted SG&A. Adjusted EBITDA was a loss of $12 million as compared to a gain of $57 million, and Adjusted Earnings per Share was a loss of $0.20 as compared to a loss of $0.02, both primarily due to the same factors that impacted Adjusted Operating Income.

Free cash flow generation on a trailing 12-month basis was $335 million as compared to $582 million in the prior-year period. The decline was primarily due to the lower net income excluding the impact of noncash items.

We repurchased $200 million of shares in the quarter, bringing the total to $1.4 billion since resuming share repurchases in 2023, representing a reduction in shares outstanding of approximately 21%. We continue to expect to buy back a total of $400 million of shares this year as part of our $1.5 billion share repurchase authorization, which we expect to complete by the end of 2028.

Turning to the balance sheet. Cash at quarter end was $866 million compared to $1.24 billion a year ago. The decrease was primarily due to $640 million of share repurchases over the last 12 months and $75 million cash used for the acquisition of the remaining 50% interest in Mattel163, net of cash acquired, partially offset by free cash flow generation. Total debt was consistent with prior year.

Owned inventory at quarter end was $677 million, a modest increase versus prior year, primarily reflecting tariff-related costs. Our gross leverage ratio was 2.7x and we continue to manage our balance sheet in line with our capital allocation priorities. Retailer inventories declined low double-digits compared to the prior year and we believe we are well positioned overall for Q2.

As part of the Optimizing for Profitable Growth program, we achieved savings of $16 million in the quarter bringing the cumulative total savings for the program to date to $189 million. We continue to target approximately $50 million of efficiencies this year, for a program total of $225 million between 2024 and 2026.

2026 guidance is unchanged with the exception of recasting Adjusted Operating Income and Adjusted EPS to exclude the impact of amortization of acquired intangible assets. Our Net Sales guidance is unchanged, and we still expect growth in the range of 3% to 6% in Constant Currency. At current spot rates, FX would be a tailwind of 1 to 2 percentage points on full-year reported Net Sales. We also continue to expect Adjusted Gross Margin of approximately 50% for the full year.

The recast guidance includes expectations for Adjusted Operating Income of $580 million to $630 million, reflecting a $30 million adjustment attributable to non-Mattel163 amortization of acquired intangible assets from prior acquisitions. For clarity, Mattel163 amortization of acquired intangible assets was not included in prior 2026 guidance. This results in Adjusted EPS guidance in the range of $1.27 to $1.39.

In terms of 2026 Gross Billings performance by category, we continue to expect Vehicles as well as Challenger categories combined to grow strongly, Dolls to be comparable, and ITPS to decline. This includes the following growth drivers: continued strong performance in key brands, including Hot Wheels, Mattel Brick Shop, UNO and Little People, further amplified by Masters of the Universe global theatrical release and product line, the Matchbox film, product for major theatrical releases, including Disney and Pixar's Toy Story 5, significant new toy partnerships including KPop Demon Hunters and DC, upcoming self-published digital game releases, and the consolidation of Mattel163.

The guide for 2026 full-year Adjusted Gross Margin of approximately 50% includes an expectation of sequential improvement in the second quarter, although we expect it will remain below 50% in Q2, and then also improve in the second half.

Looking to 2027, we continue to expect mid-to-high single-digit revenue growth in Constant Currency and strong double-digit growth in Adjusted Operating Income, benefiting from our brand-centric strategy, innovation in toys, major partnerships, and the anticipated returns on strategic investments, including digital games.

We are monitoring developments related to the current events in the Middle East, as well as possible changes related to tariffs, and our guidance includes a range of assumptions and scenarios. Conditions remain fluid, and current guidance is subject to market volatility, unexpected disruptions, as well as other macroeconomic risks and uncertainties, including further developments in the Middle East and regulatory actions impacting global trade.

With that, I will turn it back to Ynon.

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

Thanks, Paul. In summary, we are off to a good start to 2026. We are seeing momentum in the business and continue to execute our strategy to grow our IP-driven play and family entertainment business. We are seeing top-line acceleration in the second quarter to date and expect to achieve our full-year 2026 guidance.

With that, I'll now hand the call off to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Megan Clapp, Morgan Stanley.

Megan Clapp - *Morgan Stanley - Analyst*

I wanted to start maybe, Paul, where you left off, you said you're monitoring what's going on in the Middle East. Obviously, things are fluid and the guidance assumes a range of assumptions and scenarios. You said, I think, Ynon, you mentioned there's minimal impact to date as well.

I guess as we think about the cost side of things, resin and freight have both moved significantly higher, just obviously, as oil has. And so can you maybe just remind us of your exposure to those two cost buckets and maybe walk us through your hedging and contracting and what you're kind of embedding in the guide at this point?

I understand there's some inventory timing as well. So maybe the potential headwind is pushed out. But just trying to kind of understand and frame the degree of potential cost pressure we could see? And how you are thinking about managing it?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Of course, and thank you for the question. As we said in the prepared remarks, we see minimal impact on our business year to date. But of course, we continue to monitor closely. We did reiterate our guidance, and that includes a range of assumptions and several scenarios.

We are not immune, but it's too early to speculate. And it depends, particularly on how long the disruption lasts and also how long the oil prices remain elevated. We are experienced. We have a team on the ground that's managing this situation. And we are, at this point, reiterating our full-year guidance both in Adjusted Gross Margin of approximately 50%, with all these puts and takes.

Megan Clapp - *Morgan Stanley - Analyst*

Okay. And then maybe just on the top-line, the 4% reported growth in the quarter and 1% in constant currency was better than what you had laid out when we talked a couple of months ago. I think you're expecting down low-single digits in the first quarter.

So maybe you can just talk through the drivers of what came in better than expected? Was there any sort of Easter timing benefit we should be aware of as we think about the second quarter? And yeah, that would just be helpful.

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

Yes, Megan. As we said on the call, we had a strong start of the year. The growth came from several stand out brands that grew double digit, including in our own brands, Hot Wheels, UNO, Monster High and Masters of the Universe ahead of the movie release and Mattel Brick Shop, which is becoming a proper hit for Mattel as well as partner brands like Toy Story and WWE.

The consumer demand POS was positive, and this is in the context of strong growth in the industry. So what we are seeing is consumers are buying toys. The toy industry is in a healthy position.

And for Mattel, we are continuing to see demand. And as we said, we saw acceleration of shipping quarter to date -- second quarter to date. So we're well positioned to grow in the second quarter, consumer demand is positive, and we continue to execute our strategy.

Operator

Arpine Kocharyan, UBS Investment.

Arpine Kocharyan - *UBS AG - Analyst*

To follow up on Megan's margin question, actually, I was hoping you could go through what IEEPA tariff rollback means for you for the year? And then how much of wiggle room that gives you to basically offset some of the impacts you might see through 2027, as I understand most of your raw materials are locked in for the year.

But we are hearing of fuel surcharges for freight. Just if you could kind of give a little bit more on those puts and takes? And then I have a quick follow-up.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah. Thanks, Arpine. So our guidance related to tariffs includes a range of assumptions and scenarios. And specifically, what we have included in the guidance is the expectations of the actions that we're taking back in 2025 will fully offset the annualized dollar cost impact of 2026. We said that, and we are, at this point, reiterating that point.

But you know that the tariff situation is fluid. We started the process of refunds. We're actively working through the systems. And more broadly, the overall framework is still evolving including potential appeals. So the timing and ultimately, the outcomes are not clear.

So that's why I say that our guidance includes a range of assumptions and tariff rates for the year. But it's important to say that our guidance does not factor in a refund given the uncertainty at this point in time.

Arpine Kocharyan - *UBS AG - Analyst*

And then, Ynon, maybe for you. You talk about digital strategy integration of the JV going well ahead of the releases to digital games. Anything else you would like to share kind of on your investment cadence as we progress through the year, anything that has changed in your outlook maybe for 2027 and what kind of returns you could be looking at? Anything else you feel like you should share sort of as you think about three months that have passed since you last gave an update.

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

Thanks, Arpine, Yes. So we did close the acquisition, as we've said on March 2nd. The integration is tracking according to plan. We have a cross-functional team that is focused on all the relevant activities. And as we've said, acquiring full control of the JV meaningfully advances our digital games business, and it will add significant development, publishing, and digital customer acquisition expertise to the company. So this is a good development. The deal is done, and we are in full integration mode.

When it comes to our strategic investments, as we've shared, these investments are meant to drive accelerated growth and profitability, which is consistent with our first capital allocation priority to invest in organic growth. It's in line with our strategy to grow our IP-driven play and family entertainment business.

The investments, as we've said before, are in areas that are designed to allow us to capture even more value from our IP and do that even faster. And the examples we gave were in self-published mobile games, building sets, DTC, first-party data and technology and infrastructure.

When it comes to self-published mobile games, this is also progressing very well. As we've said in the prepared remarks, we are ready to launch the first game, which is based on Masters of the Universe film. The game is now in soft launch, and all the metrics are where we want to see them. And the second game is in advanced development, also would be a soft launch soon and will be released later this year.

We'll be able to share more down the road, but I can say that it's tracking well. All of the testing and metrics that we are monitoring or where we want to see them. And it's exciting to be in a position where we would launch our first self-published games that can have asymmetric impact on the company. All of that is part of our investment in areas that can accelerate top-line growth and profitability.

Operator

Jim Chartier, Monness, Crespi, Hardt & Co.

James Chartier - *Monness Crespi Hardt & Co Inc - Analyst*

Last quarter, you said Infant, Toddler, and Preschool would be a 2% to 3% headwind to the business this year. That implies like a mid- to-high teens decline in that business. Can you just give us some more color on what's driving that and when you think that business could stabilize?

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

Yes, Jim, it's exactly what we said. It will be a 2% to 3% headwind this year, and this is still where we see things tracking. But as we also said that the drag is becoming smaller, especially from Baby Gear and Power Wheels.

We do expect to see growth in key segments within Fisher-Price, including specifically Little People, which is growing double digit. And this is driven by new partnerships that we have with important players like Nintendo, with Disney across Toy Story and Mickey and Friends and other brands. And overall, this is a fast-growing, high-margin business that is growing within Fisher-Price, and it's great to see that.

We're also getting ready to relaunch Thomas in the second half of the year. There'll be animated content -- premium content that we are producing. It will be on all the major leading kid platforms with new product line, new branding and more engagement. And we continue to assess the business, the category, as a whole because the category is an important part of the toy industry overall. Fisher-Price is the market leader. It's a brand that has been around for more than 90 years, globally recognized and cherished by generations of parents and families and the significant vested value in that brand. And then, of course, we're looking at the numbers and want to make sure that the business is in the best position to grow and achieve its full potential. And we'll come back with more information down the road.

Operator

Stephen Laszczyk, Goldman Sachs.

Stephen Laszczyk - *Goldman Sachs Group Inc - Analyst*

First, Ynon, maybe away from the digital gaming strategy. I was curious if you could maybe talk a bit more about the strategic initiatives you laid out last quarter and some of the changes the organization and organizational structure that has taken place over the last couple of months, really where are you investing in the business today? And how should investors expect to see some of these initiatives and some of these changes playing out over the balance of the year as you work towards that goal of capturing more value from your IP faster?

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

Yes. Thanks, Stephen. This goes back to our strategy that to -- that is oriented around being more brand-centric where this is no longer about toys versus non-toys or toys or entertainment. This is about growing our brands holistically. And the strategy, a new operating model that we are deploying right now is designed to accelerate the value that we will capture out of our brands.

Toys remains a key pillar part of this strategy. Toys is a foundational part of our business and we believe there is significant upside in the toy industry, and we're seeing it playing out this quarter as well as last year, and we expect that will continue for the full year in 2026.

That said, we would like to leverage the success we have in toys and the strength of our brands outside of the toy aisle. And in order to do that, we believe that a holistic management of the business with that lends with the brand -- a brand-centric strategy would allow us to do that in the most optimal way and also be very effective in how we create demand.

In the past, the orientation was more about promoting certain toy lines or other lines of the business. We are shifting more towards brand marketing, not specifically just on certain lines or certain products, but more holistic marketing and are looking to leverage the significant resources that we spend in demand creation across the business overall.

The other thing that it does, it allows us to manage the business holistically where success in toys, breeds success in entertainment and success in entertainment will reflect and inflect back on the toy business. So if you think about digital games or mobile games, when we are now developing titles or game titles based on our brands, we do it with a holistic strategy to promote both the games as well as toys, content, location-based entertainment, and other executions holistically. And we believe if we do that right as we are now deploying -- the strategy that we're now deploying, it will accelerate our business significantly and drive also higher margin and stronger performance overall.

Operator

Eric Handler, ROTH Capital.

Eric Handler - *Roth Capital Partners LLC - Analyst*

Ynon, I wonder if you can talk a little bit about Mattel Brick Shop. I mean, reviews have been really strong for the product line. And just wondering how fast can this ramp so that it's a meaningful contributor to the business?

And where -- how -- at what point will we start seeing full shelves at retail? And just talk about some of the dynamics going on there, please?

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

Thanks, Eric. The Building Sets category is one of the fastest-growing parts of the toy industry overall. This is obviously driven by LEGO. But it is an important fast-growing category. And within the category -- within the building sets category, building sets for cars specifically is one of the fastest-growing segments.

When it comes to Vehicles, we are by far the global leader. We understand car culture better than anyone. And what we did around Mattel Brick Shop is bring our expertise in cars together with the incredible capabilities and innovation we have within MEGA that is our footprint within the building sets category, and created an incredible product.

And what is unique about Mattel Brick Shop is that these are not just cars that you construct and put together. These are cars that by the time you finish building them, look like cars. And we infused metal parts, rubber wheels, and just great packaging, branding, an incredible manual itself is a book that you would put in your library. The quality is that high.

And we're very excited to see the initial reaction. The consumer demand is stronger than we can accommodate. We are chasing demand. It's growing double digits. And we believe there's significant runway ahead of us, not just in '26 or 2027. This can be a runner for years to come and really leveraging the Mattel playbook beyond cars and beyond building sets in infusing innovation, brand purpose, cultural relevance, great partnerships, and a franchise mindset that extends the play pattern and create multiple touch points across multiple entertainment verticals and other opportunities to engage fans.

Eric Handler - *Roth Capital Partners LLC - Analyst*

Okay. And then as a follow-up question, when you look at the mobile gaming industry, it is the largest segment within the video games business, but has become very mature, really flat lining for the last several years, growing maybe low-single digits. Very competitive, costs a lot to scale a game.

So I'm wondering why is -- why do you view that this is a business that you want Mattel to be in? And sort of how are you going to measure success in the genre.

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

Yes. The -- you're right in the premise that it is competitive and it's a relatively competitive -- well, competitive place to be with other players that are in it. But a few things changed over the years in terms of the dynamics within the industry.

It is now not very costly to develop a game. You don't need to own a studio to develop a game and you don't need to own the game engine. And so for a cost of under $10 million, we see it as single-digit million dollars, you can fund the development of a game.

What is more capital intensive, and you said that as well is that it's more capital -- -- you need more capital to drive demand, to acquire users. Although what is also unique in our days now is that the user acquisition is all driven by performance marketing, where you know the ROI of your spend, you know exactly what to expect when you spend the money and it's almost scientific in terms of how much money you spend and what do you get in return. So while you do spend capital, you only do that to the extent you know that the marketing and the consumer acquisition will yield the return that you expect.

What is unique to Mattel and where we stand out is with the strength and appeal of our brands. Our economics are different, different to a traditional player because people are proactively looking for opportunities to engage with our brands. People are searching for opportunities to engage with our brands.

When we put out a Barbie-branded game on Roblox, it was the number one branded game for more than a year with zero marketing. When we put out an UNO experience on Fortnite, on the first day, it became one of the top 10 most active or engaged experiences on the entire platform against more than 100,000 different islands and experiences in the platform.

So we know that our brands percolate to the top and people are proactively searching for them. Because of that, our economic equation is different in terms of demand creation and user acquisition. And we expect that with good execution -- and it's not enough to have strong games, you still need to deliver on the execution. So we believe that strong -- with our capabilities and with the partners we work that develop the games for us, we'll be able to drive successful experiences that will deliver, have the potential to deliver asymmetric return for Mattel. And we're excited to participate in this large important part of the ecosystem.

Operator

Anthony Bonadio, Wells Fargo.

Anthony Bonadio - *Wells Fargo Securities LLC - Analyst*

So just to start on Masters of the Universe. It seems like some of the forecasting services have this doing pretty well at the box office. Can you just talk a little bit about how we should think about the lift to earnings, if that's the case? And just maybe walk us through what's embedded in guidance around this.

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

Yeah. You're right, things are tracking well. There's a lot of excitement around the trailers and the initial marketing campaign, and the actual campaign is about to kick off. So you will see a lot more activity around Masters of the Universe. At the same time, we know it's hard to predict box office. This is Hollywood.

But what we can say already that Masters of the Universe movie is already a big win for Mattel. The movie or -- even the buildup towards the movie is driving awareness, strengthening relationship with fans. We have dozens of partners around the world. We're seeing product sales ramping, growing double digits, and it's only going to get stronger and better from here.

What's unique about this movie specifically is that it's bringing to life and it reimagines this classic mythology. It's going to engage classic -- the fans of the generation that used to watch it when there were kids, but also appeal to young kids and be very contemporary and timely and culturally relevant. So it is an important addition to our portfolio. It will drive sales -- toy sales, the movie is toyetic. The movie is very toyetic.

We just rolled out our product offering this past weekend, a combination of mainline as well as collectors, and it's just great. So we're very positive about it. We said it will be a driver. We expect double-digit growth, and we expect it will give a whole new generation of fans an opportunity to engage with this great franchise.

Anthony Bonadio - *Wells Fargo Securities LLC - Analyst*

That's helpful. And then maybe framing Megan's question another way. If commodity and freight prices remain where they are today, does that mean guidance remains intact for '26? Or does that become more of a challenge as the year progresses?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

I'll take that one. As we said before, we're not immune, but at this point, it depends how long the disruption lasts and how long the oil prices remain elevated. So at this point, the guidance remains intact with those assumptions in mind.

Operator

Kylie Cohu, Jefferies.

Kylie Cohu - *Jefferies LLC - Equity Analyst*

I apologize if you've already kind of addressed this. but I just want to dig a little bit into the expected sales cadence for the year. Obviously, Q1 turned out better than you expected. Do you still expect kind of a large step-up in sales growth in Q2? And really just any changes in how retail like inventory posture has changed over the quarter would be helpful.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, Kylie, I'll take that one. So we had a good first quarter overall from a performance perspective, but we still have three quarters to go and Q1 is a small quarter. Now what we see into Q2, we have certainly acceleration in the early times of the quarter in POS, and we then continues to -- we will then continue to see acceleration in gross billings.

So actually, POS, let me clarify that. POS, given the seasonality in Easter is flat. I would say it's flat to slightly down. But we're encouraged by what we're seeing from an acceleration in shipping in Q2 year to date, that is the point. And our full year guidance remains unchanged. So a strong start of the year, acceleration in Q2 and then we continue to see the strength in the second half of the year.

Kylie Cohu - *Jefferies LLC - Equity Analyst*

Great. And then just any update on the strategic review of Infant, Toddler, and Preschool?

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

Can you repeat the question? I heard strategic review. I didn't hear the first part.

Kylie Cohu - *Jefferies LLC - Equity Analyst*

Oh, sorry. Just any update on the strategic review of Infant, Toddler, and Preschool?

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

Sorry yeah. Thanks, Kylie. No update. We continue to assess the business. We talked about the importance of the category in the industry. We talked about the importance of Fisher-Price within the industry and within the category specifically, and we'll come back with more detail about our review of best positioning this business for -- to maximize its potential.

Operator

Gerrick Johnson, Seaport Research Partners.

Gerrick Johnson - *Seaport Research Partners - Analyst*

So on the investment spending, the $150 million -- I should actually say the $110 million, let's exclude the $40 million in user acquisition, $110 million. Is that still the target, $110 million for the year? And how much has been incurred so far?

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

Yes, that is still the target. We are not breaking out the spend by quarter, but we are tracking on plan full execution mode, all the initiatives we mentioned. It's still early in the year, but we're happy with the progress and are very confident that these investments in aggregate will have high ROI with net positive contribution to the bottom line in 2027 and beyond.

We talked about the different parts of the different areas where we invest. This is all about our own brands, our own organic business and designed to accelerate and improve the performance of the business overall.

Gerrick Johnson - *Seaport Research Partners - Analyst*

Okay. And perhaps related, maybe not. CapEx for the quarter looked like it was $65 million the highest first quarter CapEx since 2017. So what's your CapEx guidance for the year? And why was it so high in the first quarter?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah. We don't necessarily guide CapEx specifically, but what we are doing is we are investing in our infrastructure and this is in line with our guidance in terms of cash flow in general. So we are tracking to our expectations.

And overall, this is pretty much in line with the 3% to 4% net sales that we have executed on over the last few years. And we are doing the normal upgrades that will increase our productivity, our efficiency and pretty much in line with our expectations.

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

And Gerrick, just to emphasize what Paul said, still within the framework of 3% to 4% of net sales, which is -- we believe is still very healthy and very much controlled in line with our capital-light orientation and capital allocation priorities.

Operator

Chris Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

I wanted to follow up on the tariff question. As you think about -- take refunds off the table, in the back half of the year, you'll be shipping product presumably at a lower tariff rate. If that happens, how do you think about how the retailers behave in terms of do you get the Gross Margin rate back? Or do you think that the retail partners will look for you to bring prices actually lower given how important the category is to driving traffic to the stores?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, Chris, I wouldn't necessarily speculate on what the future tariff rates will look like. It's early days, but what we are doing is constant conversations with our retail partners. It's early days, and we want to see how the refund process works out.

But also keep in mind that we do not set the prices the retailers do. So what we do is we work closely with them on a variety of issues, and this is actually one of them.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Got it. And then I wanted to clarify the POS comment. So quarter to date, it's flat to slightly down, and that includes an Easter headwind. How do you think about it on a year-to-date basis? And then as you think about the shipping strength that you're seeing right now, you're also lapping some deferred retail orders from last year. You've got Masters in the Universe. You've got Toy Story coming. So as you try to disaggregate sort of the improvement in the second quarter, is there a way to give us some insights around how much of it is comparison driven versus some sort of more organic uptick in the business.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah. I don't want to get deep into POS. We do not guide on POS. And -- but what I can tell you is that our gross billings are coming in strong for the second quarter. Remember, last year, it started -- we started to see the disruption that was as a result of the uncertainty around tariffs.

But it's a combination of both what we are comping from last year, but also our strong portfolio and our strong innovation, and we are adding this year on top of what we had last year. So it's a combination of both.

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

And Chris, I would add the comment that we said in the prepared remarks that the shipping -- the ordering patterns in the US is stabilizing. And this is an important comment. What we've seen in the last four quarters, if you remember, the shift in ordering pattern was a big headwind for us.

We believe US retailers ordering patterns are stabilizing. And in line with that, we also expect our North America region to grow in the second quarter. And so this is something we said in the prepared remarks. I just want to make sure you -- I mean it's captured.

Operator

James Hardiman, Citi.

James Hardiman - *Citi Infrastructure Investments LLC - Analyst*

So I just want to make sure I understand. Obviously, revenues were better than you guys were anticipating in the first quarter. If I think about Gross Margins and the magnitude of the compression there, at least versus where we were modeling that was worse than expected. Maybe the bridge on slide 12 is certainly helpful.

Maybe walk us through some of those buckets and how those performed relative to your expectations? And then any color you can give us on how those trend as we move through the year. FX looks like it was a headwind, I think you're expecting that to flip to a tailwind. Any thoughts on the timing there?

And then obviously, the inflation piece doesn't sound like that has anything to do with the fuel cost in the Middle East stuff. But as we think about 2Q and beyond, any help on what those buckets look like from a Gross Margin perspective?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, James, remember, we previously said that we expected in Q1 Gross Margin to be down. So the decline was due to the expected Gross Margin incremental cost of tariffs, as you see in the bridge, unfavorable foreign exchange and also inflation -- that inflation, by the way, is unrelated to the Middle East because it hasn't hit our P&L.

And going the other way, we had tariff mitigation actions, including our Optimizing for Profitable Growth savings, and those were partially offset by several other factors. And all these elements were expected.

So keep in mind also, that's an important consideration that Q1 is a small quarter. So small dollar shifts can cause big swings in margin percent. So when it comes to the outlook for the year, with all of that, we are on track to achieve our full-year Adjusted Gross Margin guidance of approximately 50%, and this includes an expectation of sequential improvement in the second quarter, and although we expect it to remain below the 50%, specifically in Q2, but then also to improve in the second half to get to an average of the guidance that we talked about of approximately 50%. So those are the puts and takes and the trajectory that we expect.

James Hardiman - *Citi Infrastructure Investments LLC - Analyst*

Okay. And then a similar question on the OpEx side, the SG&A side. I guess, in particular, the advertising and promotional expense was up, call it, 32%. It sounds like maybe there was some timing that affected that number.

But maybe any thoughts about how to think about how that trends over the course of the year and sort of the incremental investment spend, how to think about the timing of that? What do we see in the first quarter and how we sprinkle that into our models for the remainder of the year?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Sure. So for SG&A, let me start with that one. SG&A increased $19 million, primarily due to the investments that we talked about, the strategic investments. And of course, we do not guide to these lines for the year. But keep in mind that this includes incremental investments that we talked about since last quarter.

There's also a little bit of timing when it comes to the A&P, and that is also associated with the shift in the Easter holiday. But we are tracking to what we said overall since in the beginning of the year, and that is associated, of course, with the pacing of our investments.

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

Okay. We don't have another question. Thank you. Thank you, everyone. Thank you for joining us today and for all your questions.

Just to say in closing, we are closely monitoring macroeconomic developments. Clearly, a lot of things are going on, and we are watching how things pan out. Yet we have a lot to look forward to this year. Our outlook reflects the momentum of our strategy to grow our IP-driven play and family entertainment business and are excited to continue to execute the strategy for the rest of the year.

We appreciate the time. Thanks again for joining the call.

Operator

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