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MAT.OQ - Q2 2026 Mattel Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by, and welcome to the Mattel, Inc. Second-Quarter 2026 earnings conference call. (Operator Instructions)

I would now like to turn the call over to Katina Metzidakis, Mattel's Head of Investor Relations. Katina, please go ahead.

Katina Metzidakis - *Mattel Inc - Head of Investor Relations*

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

This afternoon, we reported Mattel's Second 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 otherwise stated.

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 financial results included in the earnings release and slide presentation are preliminary until Mattel's Form 10-Q is filed with the SEC and actual results when disclosed in the Form 10-Q may differ from these preliminary 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*

Good afternoon, and thank you for joining our second quarter 2026 earnings call. We continue to execute our strategy to grow our IP-driven play and family entertainment business with multiple proof points across toys, digital and film. Mattel achieved strong growth in Net Sales of 10% as reported and 9% in Constant Currency with a double-digit increase in North America.

Growth was driven by both owned and partner IP and digital games following the full acquisition of Mattel163. Mattel was number one globally in its leader categories, Dolls, Vehicles, Infant, Toddler, and Preschool and gained share in Vehicles and Action Figures, per Circana. We continue to execute our capital allocation priorities, including investing in organic growth and buying back our shares, all while maintaining a strong balance sheet.

As we have discussed, the investments in organic growth are designed to accelerate top and bottom-line and capture even more value from our IP faster. Examples include self-published mobile games, building sets, trading cards, DTC, first-party data, and technology and infrastructure. These investments are progressing well and we continue to expect that in aggregate, they will have high ROI with a net positive contribution to the bottom line in 2027 and beyond.

Top-line growth has continued in the third quarter to date with positive POS year-to-date. We believe we are well positioned for the back half of 2026 and are reiterating our full year 2026 guidance. As it relates to the global toy industry, it grew strongly in the first half, and we expect it to grow for the full year with a toyetic theatrical slate and continued expansion of adult consumers.

Looking at our category performance, we are seeing the benefit of our diverse portfolio and a complementary combination of owned and partner brands, which are managed as part of our brand-centric operating model.

Growth was driven by Vehicles and Challenger categories collectively. Within Vehicles, Hot Wheels had another outstanding quarter, growing 12%, supported by continued strength across both kids and adult collectors. Our collectible die-cast business continues to perform exceptionally well, demonstrating the expanding appeal of the brand. Within the Challenger categories, growth was driven by Games led by UNO, including the contribution of Mattel163 as well as Action Figures, including Toy Story 5 and Masters of the Universe.

Dolls declined primarily due to lower revenue from streaming content for Barbie as well as Polly Pocket, partially offset by growth in K-Pop Demon Hunters and Disney Princess and Frozen. We continue to expect Barbie trends to improve in the back half of 2026 driven by new content, including the Barbie Nutcracker animated special, along with product launches such as the new Barbie Dreamhouse. We continue to expect Barbie to return to growth in 2027.

Infant, Toddler, and Preschool declined primarily due to Fisher-Price. Within Fisher-Price, Little People continued its strong momentum, growing high double-digits, supported by new partnerships, including Nintendo and continued strength in its core offerings. Little People is demonstrating potential to become an increasingly meaningful growth driver.

As we shared before, we're actively assessing our Infant, Toddler, and Preschool business to ensure it is best positioned to achieve its full potential. At the same time, we continue to focus on profitability and optimize the product lines. We are also making strong progress in digital games and film. In digital games, the integration of Mattel163, which we fully acquired in the first quarter, is progressing well, and we are leveraging our combined capabilities as we look to expand our pipeline of future games.

In addition, we launched our first self-published mobile game based on Masters of the Universe, establishing our publishing and digital customer acquisition capabilities. Our second self-published mobile game, UNO Wild, is in soft launch. The game has hit all its production milestones to date, and we are encouraged with the early progress. We are gearing up for a full global commercial launch in early 2027.

As the number one traditional card game in the world, we have a unique opportunity to extend UNO's resonance beyond the physical format and deepen consumer engagement through mobile games. UNO Wild will expand the universe of UNO mobile games currently offered by Mattel163.

We also recently announced two new licensed PC and console titles based on Hot Wheels and Barbie which are scheduled for release later this year. In film, Masters of the Universe was released in theaters globally and just recently launched on Amazon's Prime video streaming service. It is now available to hundreds of millions of Amazon subscribers. In its first week, Masters of the Universe was both the number one film on Prime Video globally as well as the number one most watched movie across all streaming platforms in the US.

The movie has brought excitement to this iconic franchise, introducing the mythology to a new generation and deepening engagement with long-time fans. The full product line across toys, adult collectibles, apparel, publishing, and digital continues to expand. Gross Billings for Masters of the Universe has more than tripled year-to-date, and we expect significant growth this year as a result of the movie, and for the brand to be an important Action Figure franchise for Mattel into the future. Our next movie, Matchbox, which we produced with Apple and Paramount Skydance, is set for release on October 9th on Apple TV, along with a strong product offering in the fourth quarter.

With that, Paul will cover the financials in more detail.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Thanks, Ynon. As you just heard, we achieved strong growth in Net Sales with toys and entertainment each contributing meaningfully in the quarter. Consumer demand in the first half of the year was up low single digits and remains positive through Q3 year-to-date. The acquisition of Mattel163 contributed nearly $49 million in Revenue and approximately $14 million in Adjusted Operating Income during the quarter. Now that Mattel163 has been fully integrated, going forward, we will not separately report these stand-alone results.

Looking at Gross Billings by region, three of our four regions grew, with North America up 12%, EMEA up 7%,Asia Pacific up 4%, while Latin America was comparable. We believe the shift in retailer ordering patterns in the US, which impacted US Gross Billings for four quarters in a row, has now largely stabilized.

Moving down the P&L. Adjusted Gross Margin was 48.6%. The decline was primarily due to the negative impact of, 170 basis points from the gross incremental cost of tariffs, 120 basis points from inflation, 110 basis points from higher royalties, as well as 60 basis points of unfavorable foreign exchange. Going the other way, 120 basis points from the addition of Mattel163, and 80 basis points from Other, including tariff mitigation actions and Optimizing for Profitable Growth savings.

Advertising increased $45 million to $124 million, including expenses associated with Mattel163 and brand, marketing, and consumer engagement activities and theatrical releases in the quarter. Adjusted SG&A increased $38 million to $384 million, primarily due to the strategic investments, as well as expenses associated with Mattel163.

Adjusted Operating Income was $39 million, as compared to $96 million in the prior year period, primarily due to higher Advertising and Adjusted SG&A expenses, as well as lower Gross Margin, partly offset by higher Net Sales. Adjusted EBITDA was $95 million as compared to $170 million, and Adjusted Earnings per Share was $0.01 as compared to $0.21, both mostly due to the same factors that impacted Adjusted Operating Income.

Free Cash Flow generation on a trailing twelve-month basis was $435 million, as compared to $530 million in the prior year period. The difference was primarily due to lower Net Income excluding the impact of non-cash items, and higher capital expenditures. We repurchased $100 million of shares in the quarter, bringing repurchases to $300 million year-to-date, and we are on track to reach our target of $400 million for the full year. By now, we have acquired a total of $1.5 billion since resuming repurchases in 2023, representing a reduction in shares outstanding of approximately 23%.

Turning to the balance sheet, cash at quarter end was $524 million as compared to $870 million a year ago. The decrease was primarily due to share repurchases over the last twelve months, capital expenditures, and cash used for the acquisition of the remaining 50% interest in Mattel163, partially offset by operating cash flows. Total debt was comparable with the prior year. Our Leverage Ratio was 3 times, and we remain committed to maintaining an investment grade rating, in line with our capital allocation priorities.

Owned inventory at quarter end was $830 million, a slight decrease versus prior year. Retailer inventories declined low double-digits compared to the prior year, and we believe we are well positioned overall for the second half of the year. As part of our Optimizing for Profitable Growth program, we achieved savings of $15 million in the quarter, bringing the cumulative total savings since launching the program in 2024 to $205 million. We continue to target approximately $50 million of efficiencies this year, for a program total of $225 million between 2024 and 2026.

As Ynon said, we are reiterating our full year guidance for 2026, which includes, Net Sales growth of 3% to 6% in Constant Currency, Adjusted Gross Margin of approximately 50%, Adjusted Operating Income of $580 million to $630 million, and Adjusted EPS in the range of $1.27 and $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 drivers: momentum in key brands, including Hot Wheels, Mattel Brick Shop, UNO, Little People and Masters of the Universe, the Matchbox film, product for major theatrical releases including Disney and Pixar's Toy Story 5, significant partnerships including K-Pop Demon Hunters and DC, and the contribution of digital games following the full acquisition and consolidation of Mattel163.

FX is expected to have an approximate 1% benefit on full year Net Sales based on current spot rates. Gross Margin is expected to improve in the second half. We do not expect a repeat of the heavy promotional activities that occurred at the end of 2025 and, while we are seeing some moderate inflationary pressures associated with events in the Middle East, we expect to mitigate them and achieve our full year guidance.

The strategic investments of $110 million this year to accelerate growth and capture even more value from our IP faster are progressing well. We now plan to deploy the majority of the $40 million of digital performance marketing investments to coincide with the commercial launch of UNO Wild in 2027. This is not expected to impact our full year guidance for 2026. Our guidance always includes a range of assumptions and scenarios.

As a reminder, interest expense this year is higher as compared to 2025, following our debt refinancing last year, while interest income is lower due to the lower cash on the balance sheet. As we have shared previously, given the uncertainty around tariff refunds, our guidance does not currently include any material related benefit.

I will now turn it back to Ynon for some concluding remarks.

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

Thanks, Paul. In summary, this quarter, we made important strides in our strategy to grow our IP-driven play and family entertainment business and achieved strong growth in top-line. Growth has continued in the third quarter, and we expect to achieve our full year 2026 guidance. Our world-class brand portfolio and product offering driven by our brand-centric operating model and global capabilities, position us well for the second half of the year.

Before we begin Q&A, I'd like to congratulate Roberto Stanichi who has been promoted to President, Chief Marketing and Brand Officer of Mattel. As the leader of our Global Brand Team, Roberto will be joining our earnings calls to provide additional perspective on our brand-centric strategy, portfolio, and performance across categories. I'll now pass it back to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Arpine Kocharyan, UBS.

Arpine Kocharyan - *UBS AG - Analyst*

I wanted to start with your full year guide, Revenue may be slightly better for the quarter, understandable why full year guide is unchanged, given so much of volume is still ahead of you. But then on margin, mostly, again, consistent with what you said you will do in Q1 for Q2 that does imply back half needs to be up above 50% in margin -- in Gross Margin. Is that pretty much unchanged as you look for the back half, there's been so much volatility in crude and investors are just really focused on input costs and what that means for the back half? And then I have a quick follow-up.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Good. Thank you for the question, Arpine. Good to talk to you. As you well say, we just reiterated guidance, and let me start with the top-line. We achieved a strong quarter and also a first half that was broadly in line with our expectations. And there remains a full half of the year ahead, where we typically sell two-thirds of the normal volume for the full year. It's important to note that our guidance continues to reflect a range of scenarios and assumptions around consumer, macro and inflation. So that's what is related to the top-line.

In terms of margin assumptions, which is the second part, we are also confirming our guidance of approximately 50% in terms of Gross Margin. For the balance of the year, we are expecting to improve sequentially for the second half and we do not foresee the heavy promotional activities that we saw at the end of 2025, and also the inclusion of Mattel163. So those are the factors that will allow us to deliver on the margin guidance. There's also puts and takes in the bottom line but they are all within the guidance range and opportunities that we have. We are monitoring clearly the events of the Middle East, and we have a set of plans and assumptions to be able to mitigate those impacts and achieve our full year guidance.

Looking forward, our expectation is that the full benefit of the incremental investments, remember, 2026 is an investment year that will deliver benefits and fruits in 2027 with an accelerated top and bottom-line and those expectations for 2027 and beyond remain.

Arpine Kocharyan - *UBS AG - Analyst*

Great. That's very helpful. And then I don't know if Roberto is on the call today or if he's willing to take questions. But just wondering if we can hear a little bit more on his recent promotion to President and Chief Brand Officer, we all know how good his leadership has been on brands like Hot Wheels. But what does this management change mean for brands like Barbie, how he thinks about sort of the strategy there, and kind of your overall view on where the most profitable brand you have in the portfolio's headed for the back half and for next year.

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

Thanks, Arpine. I'll take it first just to talk about Roberto's promotion, and then he will answer your question on Barbie. So first of all, Roberto's promotion is really about implementing our brand-centric operating model. This is about bringing together two concepts. First is to manage our brands holistically, to capture the full value of our IP and create closer alignment between toys and entertainment, including content, digital, consumer products, and experiences.

The second is to orient demand creation around fans and fandom and to nurture deeper emotional connections with our brands across multiple touch points. The promotion reflects the importance of our global brand organization to Mattel's business and recognizes the significant progress Roberto's been establishing and driving to implement the model. He's been instrumental in leading Mattel through this evolution, and the promotion is indicative of the Board's confidence in Roberto's leadership and support's his continued development as the company continues to execute its long-term strategy. So, a lot on Roberto's plate, and I'll let him take the question on Barbie.

Roberto Stanichi - *Mattel Inc - President, Chief Marketing & Brand Officer*

Thank you, Ynon, and thank you, Arpine, for the question and everyone for welcoming me into the call. I'm looking forward to working more closely with you all. So yes, absolutely, let's talk about Barbie because this is one of our key priorities, and we want to take a few minutes because it really deserves a fulsome answer, and I want to put it into the context of our brand-centric operating model. So Barbie is obviously an icon and the number one doll in the industry and has been for the past five years. And we have a new operating model, a new organization and a clear plan that is going to define this new chapter for Barbie.

And giving you a little bit more detail. If you look at the back half of 2026, we do expect the trends to improve, and that's driven essentially by three main tenets. First one is that we're significantly increasing our investment in content. So we're going to be doubling the amount of YouTube content that we're launching. We're re-releasing seven of classic full-length Barbie animated specials in the platform and we're launching a brand new Barbie and the Nut Cracker animated special that is going to be tied to the holidays. So put it all together, we're significantly increasing the amount of content that is going to be available for Barbie and our core fans in the back half of the year.

On the product side, we do have some exciting new launches. The most important one being the new Barbie Dreamhouse. And what's exciting is that with our brand-centric methodology, this is not going to be simply a product launch, but a whole brand campaign that we're calling Barbie is moving and will come to life, not just in toys, but with brand partnerships, retail executions, and even consumer products.

And the last thing to highlight is new packaging. So in the second half of 2026, we're rolling out a new packaging segmentation that was going to make Barbie products a lot easier to shop and increase the appeal on shelf. So when you put all those things together and many more other initiatives, we do expect those trends to start to improve. And then for Barbie to return to growth in 2027. When we look at that year, we believe that, that will be driven by even more content. We have another animated special coming in 2027, and we're going to be relaunching six more classic Barbie animated movies.

From a product line standpoint, we're looking to solidify Barbie's place as a fashion icon. So you're going to see enhanced product value with more detailed fashion, accessories, better style that we believe is going to increase appeal on shelf.

And then last but not least, we're looking to accelerate our growth with our adult fan audience, and that's going to come to life through new partnerships and collections. As a company, we do know how to tap into our adult fans. You look at Hot Wheels, you look at UNO, Monster High, these are all brands that have significant business driven by adult fans and even Barbie herself. So we're just looking to accelerate that even more.

If you take a step back, much of this Barbie approach is based on the Hot Wheels methodology that we've been applying for many years. And you know that Hot Wheels has been an absolute runner for us in the past few years. It's been our largest brand since 2024. That business is approaching $2 billion for Mattel, and we believe that we can keep that momentum going for many years to come. So overall, it's an exciting time for Barbie as we see our brand-centric model being applied, and we're confident she will return to grow in '27.

Operator

Anthony Bonadio, Wells Fargo.

Anthony Bonadio - *Wells Fargo Securities LLC - Analyst*

I guess to start, just a clarification. Can you just talk a little bit more about the shift of that $40 million in user acquisition spend into 2027? Just what drove that decision as it pertains to guidance, if that expense is shifting, does that imply your core is actually coming down by that much? Just any additional color there would be helpful.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yes. Thanks for the question, Anthony. We now plan to deploy the majority of the $40 million of digital performance marketing investments to coincide with the commercial launch of UNO Wild in 2027. This is not expected to impact our full year guidance for 2026 because our guidance always includes a range of assumptions and scenarios. And when we launch UNO with the full user acquisition investment it’s because we have a high confidence and expect a high return on our investments. As we said several times before, the investments can be modulated and it's a very process-driven data-driven process with clear metrics that we're tying the investments to. So that's how we are modulating the investments and making sure they get the highest return. And we do believe that it will not impact our guidance in '26, and we continue to stand by a '27 guidance or outlook.

Anthony Bonadio - *Wells Fargo Securities LLC - Analyst*

Got it. That's helpful. And just on the Action Figures and Building Sets line item, it seems like that was a lot stronger than people had modeled even for accounting for the Mattel163 benefit. So can you just talk a little bit more about what's driving the growth there? And just anything about how to think about momentum in the back half?

Roberto Stanichi - *Mattel Inc - President, Chief Marketing & Brand Officer*

Yes. Thank you, Anthony. So from an Action Figures, it was really a highlight in the quarter, and we benefited from the theatrical from Toy Story 5 and Masters of the Universe, as well as really strong WWE performance and early shipments for our new DC partnerships. And we have one of the best Action Figure portfolios in the industry. We have multiple IP that are performing across different consumer and fan demographics.

Normally, we refer to Action Figures as part of our Challenger categories, but Mattel is really becoming a market leader. And I think we had a great proof point in this quarter. Mattel was actually the number one manufacturer for Action Figures for the month of June, according to Circana. And this is a very attractive category for us because it caters to that adult audience, and we feel that there's significant opportunity for Mattel.

I also want to highlight that the quality of our products is really unmatched, and it delivers incredible price value. And this is one of the key reasons why we have the privilege of working with some of the best licenses in the business. And it has allowed us to continue to position Mattel as a partner of choice for major theatrical releases, so we can leverage our scale, our capabilities and strong retail partnerships.

For 2026, obviously, Masters of the Universe, and that theatrical brought a ton of excitement to this iconic franchise. It helped us to introduce the mythology to a whole new generation and deepening the engagement with longtime fans. And we've seen Gross Billings for Masters of the Universe more than tripling year-to-date, and we expect significant growth as a result of the movie and the entire ecosystem that it generated.

When it comes to Building Sets. We're also very, very excited about that category. It's one of the fastest-growing drivers for the toy industry right now. We have Mattel Brick Shop Hot Wheels launching, that launched last year. It performed really well, and we look forward to continuing to expand it through 2027. And it's been an incredible hit for us. It's an incredibly unique product line because it shows the commitment to automotive authenticity and innovation in the use of materials and fans are absolutely loving that. So again, as I said, successful introduction it's yet another proof point of the strength of Hot Wheels, but really opening up opportunities for us in a new category that is very attractive.

Operator

Eric Handler, ROTH Capital.

Eric Handler - *Roth Capital Partners LLC - Analyst*

Yes. Ynon, I wonder if you could talk about -- a little bit about the Masters of the Universe franchise and brand. Unfortunately, the movie didn't perform as well as hoped for in theaters, maybe has better success in home entertainment. But now that this is passed, like how are you thinking about the next couple of years for Masters of the Universe?

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

Thank you, Eric. As you said, the movie was released in theories globally. And as you know, it just recently launched on Amazon Prime video streaming service. So it is now available to hundreds of millions of Amazon subscribers. In the first week, the movie was both number one-- the number one film on Amazon Prime Video globally, as well as the number one most watched movie across all streaming platforms in the US. So very strong reception. As Roberto noted, the Masters of the Universe brand overall has more than tripled year-to-date. And for the most part, this is driven by the movie halo and energy and excitement and drive that the movie brought to the brand.

So when we look at the success of the movie, box office is just one aspect. We're looking at it in terms of the overall impact on the franchise and what the movie did for Masters of the Universe overall. And as a result of the movie, we expect Masters of the Universe to become an important Action Figure franchise for Mattel into the future. And when you take a step back and you look at what happened to this brand that has been, for the most part, not commercialized for more than 40 years and how we brought it back into current culture with all of the awareness and excitement and new generation of fans. We're very happy with where it is, and this will be an important driver for the company in 2026 and beyond.

And this is part of the flywheel. We've always said that not every movie will be the next Barbie. But we also said that you don't need a movie to be that successful as Barbie to have real economic impact on the company because we own the IP, we own the underlying rights to -- in all categories for the IP and all we need is to ignite and delight fans and then we capture value across multiple verticals. And this is exactly the flywheel and the brand-centric operating model that we've been implementing.

Eric Handler - *Roth Capital Partners LLC - Analyst*

That's helpful. And secondly, we could talk a little bit about Hot Wheels. The last three quarters, it's been up mid- to high teens, a little bit 20% in the fourth quarter. What is it specifically? I don't believe that Brick Shop is part of the Hot Wheels segment line. Where is it that you continue just to see incremental growth of Hot Wheels?

Roberto Stanichi - *Mattel Inc - President, Chief Marketing & Brand Officer*

Yes. The Brick shop number is not part of the Hot Wheels line. So that's even more upside. But to your point, Hot Wheels was up double digits again, and it continues to show that widespread strength in the portfolio. It was the number one Vehicle property globally, and continued to gain market share in the first half. And it's the clearest example of our brand-centric strategy, right? We had clear audience segmentation and the success has really driven more than toys because Hot Wheels has evolved to become about car culture and lifestyle.

And as I mentioned before, it's our biggest brand since 2024, and it's approaching $2 billion. We do see still a lot of headroom in the category. We see strength with adult fans, which is a growing audience, and the expansion of that fan ecosystem beyond traditional Vehicles categories and into Building Sets and consumer products, experiences, digital gaming and content.

We still see that there is a ton of headroom in Vehicles itself. And we believe that if we can establish Hot Wheels as the defining player in Vehicles as a play pattern that we can believe -- we can continue to gain significant share. So Hot Wheels is a brand that we're continuing to invest in, and we expect to grow for years to come.

Operator

Christopher Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

My question is, I wanted to get an update on the outlook for tariffs. There have been a number of other companies across US consumer that have given an outlook for expected tariff refunds, how they might account for it, and sort of what a use of proceeds is going to be. So just want to get your thoughts there, how do you think about including it in Operating Income, do you think there's a need to perhaps invest in price and lean in as we get into the holiday season or I guess, alternatively, do you think any prior period numbers do you think you might back out. So I want to get your current thoughts around that.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yes. Thanks, Chris. We're, of course, actively engaged in the refund process, and we're working through the system. And as you know, the overall framework continues to evolve. And accordingly, the timing and the amount of such potential refunds remains uncertain.

I want to stress the point that our guidance does not include any potential impact of tariff refunds. So we're not projecting a specific refund amount, and we will continue to evaluate and consider the use of the refunds when they are received. I'm sure we're already thinking about it. So if and when we receive those we will communicate such uses of the tariff refunds.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Understood. And then as you think about the lift that you're seeing in Gross Margin from Mattel163, I guess, how is that coming in relative to your expectations when you made the acquisition? And perhaps was there any upside there relative to your plan in light of how you're thinking about offsetting some of that oil and resin pressure potentially in the back half. Is that one of those sources of funds?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yes. The acquisition of Mattel163 is performing in line with our expectations, both in terms of the top-line and the bottom-line. So the contribution to our margin enhancement is exactly what we expected it to do. And we continue to foresee that, that's going to be it for the balance of the year. We are counting on it for margin enhancements, not only as we saw in Q2, but also in the second half of the year as well.

Remember that Mattel163 is one of the factors, but we will also have additional ones like Optimizing for Profitable Growth savings and other factors, including, for example, lower discounts that gives us confidence to reiterate our margin guidance and Mattel163 is one of the contributors.

Operator

Jim Chartier, Monness, Crespi, Hardt.

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

Earlier, you said Little People could be positioned to become a more meaningful growth driver for the company. Could you just talk more about that, what your plans are for Little People? And what gives you the confidence that, that could be a much more meaningful brand for you.

Roberto Stanichi - *Mattel Inc - President, Chief Marketing & Brand Officer*

Jim, yes. So Little People has been really a standout within the Fisher-Price category. And we believe that the form factor and the styling is so unique and the brand has that cross-generational appeal. So when you put those two things together, you can really create a special product that has, again, broad appeal. And it's been a runner for us in 2026. We're seeing strong double-digit POS results year-to-date, and that's driven by strong partnerships like our Nintendo Super Mario execution, Toy Story execution, Disney Princess, Frozen, Mickey Mouse, and also some of our core offerings. So we believe that this is a brand that shows a tremendous growth opportunity in the future.

And if you take a step back in terms of our ITPS portfolio, I think this is also in Pre-School, another brand worth calling out, which is Thomas & Friends that we will be relaunching in the second half of this year. It's a new interpretation of that classic character. We're going to anchor that relaunch with premium animated content, new product lines and branding. So those two initiatives within the Pre-School side of the house are very exciting for us to see.

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

Great. I guess just on Thomas & Friends, the brand has been relaunched multiple times. What gives you the confidence that this time could lead to more durable growth for the business?

Roberto Stanichi - *Mattel Inc - President, Chief Marketing & Brand Officer*

Absolutely. I think the team has done a tremendous job in finding the right line between keeping the classic elements of the character. So it continues to have multi-generational appeal. But updating it to today's moment. And also embedding some of the storylines on realities that the parents are dealing with right now. There's a whole aspect about deaccelerating a little bit, that parents are concerned about in terms of their kids being overstimulated. So we feel that there's a very unique positioning for the brand and maintaining, again, that classic with a modern twist approach to it, which is very different than some of the relaunches that were attempted in the past where they were bigger departures.

Then there is something else, which is we're anchoring the line on a very successful formula of die-cast that we know from Hot Wheels, and we have incredible know-how in terms of managing the appeal of collectible lines like that. So it's a completely new approach, and we believe that it gives us a very good chance of re-establishing this franchise for the future.

Operator

Kylie Cohu, Jefferies.

Kylie Cohu - *Jefferies LLC - Equity Analyst*

You mentioned that US retail ordering patterns have largely stabilized after four quarters of disruption and the inventory is down. So I guess I was just kind of curious, does that mean that we have kind of more normalized seasonality? Or is there still a little bit of distortions that investors should keep in mind as we head into the back half?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yes. Kylie, let me specify exactly what we mean with the stabilization. We believe that the shift in ordering patterns in the US that began last year, that shifted the mix more towards domestic versus DI has stabilized at the current levels. It does not mean that it will go back to what it was pre the tariff disruption. What we believe is, going forward, that mix that I referred to will approximately remain the same. So that's one factor.

The second one is related to this is what we are seeing in terms of the time frame for the fall resets. Traditionally, the fall resets happened in August. Last year, there were some delays. Now we are seeing the return to the normal time frame of August. So both of those elements are either going back to the traditional ways of doing things or stabilized. That means that there is less degree of uncertainty. And in addition, of course, as you mentioned, the retailer levels of inventory, as well as ours, are at lower levels compared to last year. So that's a good signal for replenishment as we move into the second half of the year.

Operator

Gerrick Johnson, Seaport Research Partners.

Gerrick Johnson - *Seaport Research Partners - Analyst*

Paul, can you just go over the add expense in the quarter, maybe break it out, how much of that was 163, how much may be for Skeletor and how much for toys?

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

Yes, Gerrick. The increase in advertising was $45 million more than last year, so up to $124 million. And that included expenses, as you will say, associated with Mattel163, but also increased brand, marketing, and consumer engagement as you also say, associated with the theatrical releases that happened in the quarter, but not only. We do not necessarily guide for advertising. We just reiterated our guidance overall with the expectations for Adjusted OI. So that's the reason for the increase. And it's part of our holistic investment in our brands and the acceleration that we expect for 2027 and beyond.

Operator

James Hardiman, Citi.

James Hardiman - *Citi Infrastructure Investments LLC - Analyst*

Hey, good afternoon. Maybe sort of, I guess, math question. Obviously, we can all do sort of the first half, second half math surrounding what you've done year-to-date and what your full year guidance is. Any color you can give us on the phasing between 3Q and 4Q, particularly on the Gross Margin side. I think you just made the point that 3Q should have an easy comparison as sort of the reset return to August versus later in the year last year.

And then, I guess, also a related question, the $40 million shift, I'm still struggling with that a little bit from Anthony's question from earlier. Is it easier to hit that Gross Margin number now that, that $40 million is I think, mostly moving into next year? And if so, I'm assuming that would come from 4Q and go into next year, but any help with how to think about that would be great.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yes. Let me give you a more holistic answer on the cadence. Of course, starting with the fact that we don't necessarily guide by quarter, and we manage on a full year basis. But there's a few standouts that and puts and takes that happened last year, and we also need to consider for the balance of the year. When it comes to Net Sales growth, and also when it comes to margin, and those points are related. Remember that last year towards year-end, we had a heavy promotional activity. So that's one element that we do not expect to happen this year.

To your second point, as we are now doing the full commercial launch of our UNO Wild game, Remember, that we always expected it to have the full P&L impact in 2027. And in 2026, it was a combination of some top-line, but also partially offset or mostly offset by incremental investments in user acquisition. So that's why you don't necessarily see an impact to our guidance this year and we continue to see the full impact in 2027.

So both of those elements substantiate both our top-line. Remember, Mattel163 is another factor that drives both margin enhancement and incremental top-line. So all of that combined confirms and substantiates our 2026 guidance and our outlook for '27.

James Hardiman - *Citi Infrastructure Investments LLC - Analyst*

Okay. And then going back to some previous comments that were made on the portfolio, I'm hoping to maybe piece together a couple of these, but it seems like a big deal if you're confident that Barbie is ultimately going to grow next year I don't know if that extends to sort of the broader doll segment.

But clearly, what's happened in the last couple of years is that dolls would be down and vehicles would be up, then those two things would cancel each other out in a lot of ways. It doesn't sound like you're any less bullish on the growth of Hot Wheels, in particular, I don't know if it can continue to be a double-digit grower. But as we sort of stitch some of these things together, obviously, you've got some of the digital acquisitions that should begin to pay off, UNO obviously, a big one of them. But any initial thoughts on how to think about the top-line opportunity for 2027, just given what sounds like a number of tailwinds heading into next year?

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

Yes, James, thank you for the question. And as we've said before, 2027 is shaping up to be a big year for the company. If 2026 is an investment year, where we still expect to grow top-line, but clearly, bottom-line is impacted by the investments, 2027 is going to be a big year. We expect to see growth -- continued growth in Vehicles, Barbie returning to growth will be an important driver. Infant, Toddler, and Preschool will be a much lesser drag. We still need to do some work there, but it's not going to be a much lesser drag.

And then the Challenger categories between Action Figures, Building Sets driven by Mattel Brick Shop, and Games driven by UNO, all going to be important drivers.

Now take all of that and add on top of our organic growth with our own brands two important additions to the -- to our offering between Teenage Mutant Ninja Turtles and Frozen 3 coming on top of our own IP, then add by next year where we would have four self-published mobile games in the market, K-Pop Demon Hunters will be in full year of great product in the marketplace. And the investments that we are making this year, which are impacting profitability, not just becoming neutral but actually driving significant growth for the company. And I forgot to mention DC as well, full year of execution next year.

So '27 is expected to be a big year. We have said already that we expect to see mid to high single-digit growth in top-line and strong double-digit growth in bottom-line. But of course, we'll give much more detail when we give you guidance for the full year. But we, siting here today, expect a big year in 2027. And beyond, to be clear, we're not stopping there. This is really important to say. This is the beginning of what we believe will be a strong growth period for the company.

Operator

Xian Siew, BNP Paribas.

Xian Siew - *Exane BNP Paribas - Analyst*

Thanks for the question. You recently launched your new app, your mobile app, the Skeletor mobile game. Maybe could you just share a little bit about maybe initial learnings from the game and how maybe it can kind of influence or inform you for future launches?

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

Yes, sure. This was, as you know, the first mobile game, self-published mobile game that we put out in the market. It was a low-risk, low single-digit investment and was mostly about establishing our capabilities, testing the technology stack, the publishing capabilities that we're putting together, in advance of the bigger releases that are coming. So we achieved exactly what we wanted, and it's been part, as it relates to Masters of the Universe, it was part of our franchise approach that was meant to support and be released in tandem with the movie, and it did exactly that on time and as planned.

What is exciting is to see how UNO Wild is shaping up. The game currently is in soft launch. It hit all of its production milestones to date, and we are encouraged with the early progress. The plan, as we've said, is to release the game commercially, globally at the start of '27. We know that UNO is a strong brand that has a huge following. People are proactively looking for opportunities to engage with this brand. So we will -- we're making a great game. We feel very good about it. We’ll put it out. We'll promote it. We'll do all of the required user acquisition investment and activities to support the brand.

And we're optimistic, but it's still early to tell, of course. We'll have to put the game out and see how it performs. But we're doing all the right things and we're tracking to plan and seeing everything we want to see at this stage for our second game that we put in, in the market.

Operator

Stephen Laszczyk, Goldman Sachs.

Stephen Laszczyk - *Goldman Sachs Group Inc - Analyst*

For Ynon and Paul, you called out the momentum in the broader box office this year. I just wanted to see if maybe you could speak to the benefits you're seeing in the toyetic film slate. What partner brands you're seeing the most benefit from? And then if there's any way to size perhaps the magnitude of the uplift to revenue you expect to see from the theatrical lineup stepping up this year?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yes. Happy to take that question, Stephen. So in Action Figures, we are seeing a lot of benefit from theatrical releases. This year, Toy Story 5, Masters of the Universe, our own IP, as well as WWE and the early shipments of our new DC partnership are clearly boosting the sales of the Action Figures. And we continue to see and we expect to continue to see that not only in the balance of the year, but with the amazing slate of movie tie-ups that we have in 2027 and beyond.

Difficult to provide very specific numbers. Those are big properties. That I can tell you and with both from our own IP and also from third-party IP's and we treat them as our own, and we reap the benefits and see that to contribute to both our top-line and bottom-line.

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

And Stephen, I would add that this is really about establishing Mattel as a partner of choice to partner with the major IP owners. We treat these brands as our own. We look for brands that move the market that have cultural impact. And then we bring to bear incredible capabilities, design, supply chain, commercial, all at the level that are unmatched in the industry. And all of this is part of a holistic brand management strategy as part of our portfolio strategy, organized by brands and managed by the best people in the industry per category.

So we feel very good about these partnerships. We know that when we bring our capabilities to the market, we win. And the results are pretty much in every partnership that we've been discussing today and more coming. So we're in a good place there and see it as a key part of, another key growth engine part of the strategy.

Stephen Laszczyk - *Goldman Sachs Group Inc - Analyst*

And I guess just on the back of that point, I was curious how long the pipeline is of IP that potentially is out there for you to bring under Mattel. Is there IP that's coming up over the next couple of years that you would consider bringing in house along those lines?

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

We haven't announced anything yet, and we'll continue to post you on any new developments. But the key takeaway is that we continue to strengthen our position as a partner of choice. This is incremental in addition to everything we do with our own IP, and the strength and capabilities and resources that we can offer to big IP owners are very compelling. And ultimately, it's about the results, and that is what we continue to achieve.

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*

Well, thank you. Thank you, operator, and thank you, everyone, for joining the call today. As you heard today, Mattel's Second Quarter performance was strong and continued to demonstrate the successful execution of our strategy, with growth driven by both our owned, as well as partner brands, our own IP and partner brands and also digital games, which is becoming an important part of our growth algorithm. It is good to see the top-line growth continued into the third quarter to date with positive consumer demand for our product year-to-date. And we are very well positioned as we are heading into the second half of the year.

I also, just want to welcome our new Head of Investor Relations, Katina Metzidakis. Thank you for joining us, Katina, on your first earnings call. Katina has already hit the ground running, and we are glad to have her perspective and leadership with us at Mattel, so welcome.

Thank you, everyone, for your time. Thank you for joining the call, and we'll continue the talking. Thank you.

Operator

Ladies and gentlemen, this concludes Mattel's Second Quarter 2026 earnings call. Thank you all for joining. You may now disconnect.

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