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EDITED TRANSCRIPT

MAT - Q1 2015 Mattel Inc Earnings Call

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OVERVIEW:

Co. reported 1Q15 worldwide net sales of \$923m and adjusted loss per share of \$0.08.



CORPORATE PARTICIPANTS

Martin Gilkes *Mattel - VP of Corporate Strategy & IR*

Chris Sinclair *Mattel - Chairman & CEO*

Richard Dickson *Mattel - President & COO*

Kevin Farr *Mattel - CFO*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Mattel's first-quarter 2015 earnings conference call. At this time, all participants are in a listen only mode. Later we will conduct a question and answer session, and instructions will be given at that time.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the call over to Martin Gilkes, Vice President of Corporate Strategies and Investor Relations. You may begin.

Martin Gilkes - Mattel - VP of Corporate Strategy & IR

Thank you, Nicole, and good afternoon, everyone. Joining me today are Chris Sinclair, Mattel's Chairman and Chief Executive Officer; Richard Dickson, Mattel's Chief Operating Officer; and Kevin Farr, Mattel's Chief Financial Officer.

As you know, this afternoon we reported Mattel's first-quarter 2015 financial results. We will begin today's call with Chris, Richard, and Kevin providing commentary on our results, and then we will take your questions.

To help guide our discussion today we are providing you with a slide presentation. Both our earnings release and slide presentation include non-GAAP financial measures. The information required by Regulation G regarding non-GAAP financial measures is included in these materials, and both documents are available in the investors section of our corporate website, corporate.mattel.com.

Before we begin, I would like to remind you that certain statements made during the call may include forward-looking statements relating to the future performance of our overall business, brands, and product lines. These statements are based on currently available information, and they are subject to a number of significant risks and uncertainties that could cause our actual results to differ materially from those projected in the forward-looking statements.

We describe some of these uncertainties in the risk factors section of our 2014 annual report on Form 10-K, our 2014 quarterly reports on Form 10-Q and other filings we make with the SEC from time to time, as well as in our public statements. Mattel does not update forward-looking statements, and expressly disclaims any obligation to do so. Now, I would like to turn the call over to Chris.

Chris Sinclair - Mattel - Chairman & CEO



Thanks, Martin, and good afternoon, everyone. I would like to thank you for joining us. I do want to apologize upfront. The presentations are going to be a little longer than typical. I think this is consistent with our commitment to try to give you a better feel for what we're doing with the business, and what the outlook is for this year.

With that, let's get started, and I would say up front, it's been a busy and productive few months since I last spoke to you on the fourth-quarter call. During that time, I've been deeply engaged inside the Company, and with the Board and our management, developing a comprehensive plan for a rapid turnaround at Mattel.

Simply put, our focus is to move quickly to put the Company back on track for growth and improved profitability. Our valuation of the business has reinforced the fact that our challenges are grounded primarily in execution, but it also pointed out the need to sharpen and expand some of our strategic priorities. And frankly, as the industry continues to grow, there is no reason in my judgment, with our incredible portfolio of brands and our superior scale, why we can't be leading that growth.

Now a couple of weeks ago, we announced an important step in our effort to get back on track. As CEO of Mattel, I will lead the Company in this turnaround.

We also promoted Richard Dickson to the role of President and Chief Operating Officer. Our goal in doing so is clear. The Board and I don't want to waste time in moving forward with the necessary changes to revitalize the business.

I think I know this business pretty well, and over the past several months Richard and I have developed a clear direction for leading a turnaround. Richard is a seasoned operator, and he has already demonstrated great leadership in changing how we approach the business to drive innovation. As COO, he will have the ability to ensure alignment across the Company, and particularly between the global brand teams and the commercial organizations. I can tell you that we have already begun to benefit from a greater sense of energy and focus throughout the Company.

Now on today's call, I would like to share more detail on our sharpened and expanded strategic priorities. I will also briefly discuss what this means for our near-term financial outlook, our capital deployment strategies, and our long-term financial metrics. Next, Richard will provide an update on the implementation of our plan across our key brands, and he will also describe the actions that we're taking to solidify our commercial leadership. Kevin will then review our first-quarter performance, where we see some directionally encouraging top line results, and he will also provide an overall outlook for 2015. And at the end, we will of course take your questions.

So let me turn to our strategic priorities, and let's begin by recognizing that the nature of play has changed in many ways. The isolated brand perspective that Mattel long adhered to is less relevant, and a new and exciting world of play has emerged. A world of play which encourages and rewards partnered brands with greater scope, world-class content, and faster innovation.

Against this backdrop, Mattel has in a pretty unique position. You see, at its very foundation, Mattel is really two complementary businesses, that together leverage the global scale of our extraordinary design expertise and our unmatched global supply chain and sales capabilities.

First and foremost, the Company is the owner of a powerful portfolio of global brands, with enormous untapped IP potential. Brands like Barbie, American Girl, Thomas, Hot Wheels and Fisher-Price. And second, we are a world-class toymaker that manages a wide array of our own brands and toys, as well as a number of premier licensed entertainment properties.

In recent years, it's fair to say that we have not done enough to leverage our capabilities or our potential in either part of our business. We certainly were too slow to adapt and react to a rapidly changing technology and competitive landscape. And so we plan to change that.

First, with the rapid redo of our culture. Mattel is getting back to embracing brand building, creativity and innovation. And we will put a premium on speed and personal accountability.

We are also changing things by organizing around the following six strategic priorities: Exploiting the franchise strength of our core brands, reestablishing toy leadership, strengthening our global chain supply chain, achieving distinctiveness and excellence in our commercial organization, rapidly expanding in emerging markets, and continuously driving for cost improvement.

Let me explain what this means. And let's begin with our core brands. Exploiting the strength of our core brands requires us to be much more aggressive in activating them.

Activating them through brand management and marketing, through impactful and motivating content, product innovation, digital and new high value partnerships. We simply have not been doing enough here to broaden our reach and our relevance, and given the power of these brands, I'm confident that we can do a much better job of leveraging them. And this priority is absolutely fundamental to everything that we do.



Shifting to toy leadership, here it means building on our heritage as an entrepreneurial toymaker, with a greater emphasis on product invention, speed to market, rapid socialization, promotion, and again, new partnerships. There's no reason why, with our expertise and skill, we shouldn't be a leader in this space, and once again be the manufacturer of choice for licensors and inventors.

Now with our global supply chain, we will continue to build on our position as the industry cost leader in fashion dolls and die-cast manufacturing. In addition, we are making changes in how we manage global procurement and contract manufacturing. We have recently hired an experienced executive from Amazon to lead our efforts here.

Going forward, we will aggressively reduce total system costs across our network, while maintaining our focus on improving quality, safety, speed to market, and customer satisfaction. Leadership in our global supply chain is clearly critical to achieving our objectives.

And so too is our commercial organization. Here, we are emphasizing expanded relationships with their brick-and-mortar and omnichannel customers to deliver more engaging retail experiences, new merchandising concepts, continuous brand support throughout the year, and targeted price value propositions to be more competitive. It also means step function changes in how we build with our e-commerce customers around the world.

Now we also need to continue to build rapidly in our emerging markets. And we are doing this by accelerating the pace of our growth in key countries like China and Russia. Countries where we are investing ahead of growth on market specific product lines, varying our price points, expanding our sales and distribution capabilities, and forming strong local partnerships, a formula which we have been successfully executing in Latin America over the past decade.

And that brings me to the final priority area, and that's to drive continuous cost improvements, and the reallocation of resources to support growth. Broadly speaking, we're simplifying our organization structure and optimizing our processes and supply chain to generate savings across our operations.

Savings that will allow us to invest in our brands, accelerate growth, and restore and grow profitability. We've already taken some major actions, and we remain committed to deliver on the high end of our range of \$250 million to \$300 million in gross savings by the end of next year.

So in total, we are pushing hard across a number of important fronts. In concert with these priorities, the Company has also begun to leverage a lot more outside expertise to help us drive change. We need to approach our business differently, and new strategic partnerships, many of which will be outside of our usual boundaries, will be a significant focus for us in 2015 and beyond.

These partnerships will enable us to adopt new technologies to accelerate product innovation, support new content creation, expand retail distribution including in e-commerce, and to grow our licensed entertainment offerings. You have already seen some of our early success at Toy Fair with our partnership with ToyTalk, and our ongoing collaboration with Google, and many more are underway.

We're also leveraging our relationships with traditional media partners, to extend existing brands, and to launch new ones. We're deepening our engagement with companies like YouTube and Netflix to develop even more content and distribution platforms. We're also in active discussions with a number of media and studio companies, to work with us around content development.

Further, as we look to places like China, we're expanding distribution, and we're driving online sales through channels like TMall and JD.com. And we've recently began to explore opportunities with some major players in the China tech and media space.

Finally, and importantly, we're also bringing in new talent to broaden our capabilities. Broaden our capabilities in critical areas like e-commerce, where in fact, we just hired another senior leader from Amazon, and also in marketing, consumer products, and content development. I expect to have a lot more to report on this front in the next couple of quarters.

So on balance, we're moving quickly and making some very solid progress to stabilize the business and restore growth. But having said that, I certainly don't want to sugarcoat things. The year still faces many obstacles, and we recognize that a turnaround won't happen overnight.

While Kevin will walk you through the outlook for the full year in more detail, I will point out that currency will be a significant headwind for us this year, as I'm sure it will be for most global consumer companies. We estimate that currency headwinds will likely negatively impact our revenue growth by 4% to 6%, and EPS by \$0.30 to \$0.35 a share.



Additionally, we're continuing to work through the impacts of retail space losses and some inventory overhang in Europe. We still have some pockets of brand weakness, and certainly some significant competitive pressures to deal with. However, we're committed to face these issues with urgency, and to execute well on our game plan.

Finally, Kevin is going to walk you through details on our capital deployment outlook, but I want to highlight that the Board remains committed to our Capital and Investment framework where dividends remain our first priority, after reinvesting in the business.

As we continue to execute aggressive cost reductions, we believe that we can make the investments necessary to grow our business, while still continuing our current dividend, which the Board just declared at \$0.38 per share for the second quarter, flat with last year. Now, clearly, as we have done historically, we will continue to evaluate capital deployment with the Board as the year progresses.

So now let me summarize. We're rapidly changing our culture to focus on brand building, creativity, innovation, embracing the strategic partnerships, and putting a premium on speed to market and personal accountability. We're also committed to maximizing the value of our brand franchises and IP, and to restoring innovation and operational excellence in our toy business. And these are the hallmarks of our strategic priorities going forward.

I believe this focus will enable us to continue to deliver on our stated financial objectives over the long-term, which are sales growth in the low to mid single digits, gross margins of about 50%, advertising spending of 11% to 13% of revenue, SG&A in the range of 22% to 23%, and operating profit of between 15% and 20%. And we expect to continue to generate strong and consistent cash flow that will be deployed on a disciplined basis.

So I said a minute ago, we still have challenges and lots of work to do. But I'm confident that with the revitalized management team, we can quickly capitalize on growth opportunities, and perform better for all of our constituents. And now I would like to turn it over to Richard, who will provide you with an update on our key brand initiatives, and some of the actions that we are taking to strengthen our commercial enterprise. Richard?

Richard Dickson - Mattel - President & COO

Thank you, Chris, and good afternoon everyone. As Chris pointed out, to be the leader in our industry, you must excel at creating both the big global brands and the hottest new toys. That's why we gave our core brands the autonomy and fresh perspective to compete on their own terms, and why we broke down barriers to create the revolutionary Toy Box, where constant invention and blazing speed to market meet Mattel's scale and horsepower to create competitive advantage on the toy side of our business.

Now before I update you on progress against our strategic plan on some very important brands, I would like to share some exciting developments in an area that is driving significant momentum and excitement across both our core brands and the Toy Box, and that is strategic partnerships. In today's world, the capabilities, pace, and vision of leaders, no matter how innovative they are, cannot be limited to what they create on their own. By partnering with recognized leaders in technology, invention, marketing and product innovation, content, insights, media, and other areas critical to our future success, Mattel is accelerating the pace of change and the implementation of our turnaround strategy.

Two months ago at Toy Fair, we began to announce the first of several important new Mattel strategic partnerships that will bring exciting and disruptive new ideas to the marketplace in record time, including our game changing work with Toy Talk and Google. Our exclusive Toy Talk partnership leverages their cloud-based child-safe artificial intelligence to allow kids to engage in real conversations with their toys.

Hello Barbie demonstrates the potential of the technology, but is only the beginning of the collaboration as we are extending these revolutionary capabilities to other brands and lines, including Thomas.

Our unique relationship with Google began with the reinvention of our iconic View-Master, utilizing their virtual reality technology. We are eager to employ outside technologies from innovative partners to breathe new life into underleveraged IP, and we are actively working with Google and others on reimagining many more of our classic toys.

We said at Toy Fair that these important partnerships were only the beginning, and today, there is more big partnership news to share. First, in an important commitment to our future, we are pleased to announced an exclusive partnership with Autodesk, a world leader in 3D design software. 3D printing is quickly moving from the exotic to the everyday, thanks to the growth of the Maker movement and consumer accessible print outlets. That's why we're focusing strategically on the design and software side, to drive future leadership and growth.



We want Mattel to be at the forefront as 3D printing becomes an important component of the toy industry. And through this partnership, Mattel 3D printing apps, activated by Autodesk, will soon deepen brand experiences for kids, parents, and collectors alike, by offering them the opportunity to customize their favorite toys.

This is an industry of invention, and complementing our already extensive and strong invention resources is a really important opportunity.

Today, we are announcing an exclusive new partnership with Quirky, perhaps one of the best-known and most unique invention companies in the world. Their unique approach effectively brings real-time relevant invention through a broad and growing community of influences and inventors, exponentially increasing our well of ideas and super charging our existing capabilities, to grow brand and toy innovation faster.

We not only gain a dynamic additional invention pipeline, but we also leverage Quirky's experience in rapid commercialization to further accelerate our speed to market. These new relationships speak to the blinding speed and strategic precision with which we are moving to create competitive advantage in critical areas: connected play in partnership with Toy Talk and Google; Invention and speed to market, in partnership with Quirky and future play invention in partnership with Autodesk.

Collaborations with additional best in class technology partners are an ongoing priority in our strategic plan, putting us back in the forefront of category innovation and creating additional value for our IP.

Activating our IP through content partnerships is key to the success of kids brands, large and small, and having the right content and distribution channels to best connect with a brand's target is far more important than creating content tonnage. That's why we're proud to announce that Nickelodeon is the on-air home for our full 2015 slate of three new Barbie movies, with multiple broadcast events throughout the year. Nick is a great partner to Mattel, and this represents the beginning of an even stronger relationship with the Barbie brand.

We are also one of only five featured launch partners on the new YouTube kids channel. In an extension of our Google relationship, we have already co-developed 52 new YouTube shorts for Thomas and Friends, and we intend to extend the reach and consumer engagement of additional Mattel brands through this important new kids channel.

We're also leveraging strategic partnerships to maximize the value of our licensed product. Now these arrangements tend to have longer lead times, but we have already made great strides, including big new partnerships for MEGA, such as SpongeBob and Minions, which have theatrical releases this year, and Teenage Mutant Ninja Turtles, with a license beginning next year.

Minecraft has been the top property in our business for much of Q1, and we have been very successful with this license. We're working with our partners at Mojang, Minecraft's creator, to accelerate launches planned for 2016 into the current year, to maximize the value of the relationship.

In 2016, Mattel will also begin on a very important multi-year, multi-blockbuster relationship with Warner Bros, in support of their DC Comic franchise, which kicks off with Batman V Superman: Dawn of Justice next year. In addition to our great relationship with Warner Bros, we are also very excited to be in the toy licensee for Sony's 2016 release of Ghostbusters.

We are also delighted to announce a new strategic partnership that puts us on the leading edge of pop culture. We will be collaborating with Grammy-winning musician and fashion icon Gwen Stefani as the worldwide toy partner for her upcoming music and fashion-based girls animated series, Kuu-Kuu Harajuku, based on her popular Kuu-Kuu Harajuku Girl characters.

Let me underscore that we are also continuing to work with the world's top studios and best filmmakers with a renewed determination to create blockbuster theatrical content for our most iconic brands. This is a high priority for me. So you can see, we have made a lot of progress bringing strategic partners online, and you will continue to see us announce and bring truly amazing concepts to market in collaboration with A-list partners who are reshaping their industries.

Before I move on, I recognize there's a Disney Princess volume gap in 2016 that we need to fill. These strategic partnerships are part of a broader strategy to help replace this lost volume. They will create incremental opportunities with unique play patterns and aesthetics that will be a source of significant opportunity for Mattel.

These partnerships will work in combination with our efforts to further augment the Barbie and Fisher-Price brands to help fill the gap. In 2016, Barbie will launch what we believe will be one of the strongest fashion doll lines ever, and Fisher-Price will be positioned on much healthier footing, with many new and innovative products. Further, you will see us aggressively developing our business in emerging markets, and while it's still early, I'm optimistic that we are making good progress on our efforts here.



Now, I'd like to focus for moment on two core brands, whose progress is particularly important to our turnaround: Barbie and Fisher-Price. Let's begin with Barbie. I remain confident that Barbie has the focus and clear strategic path necessary to get the brand turned around and back on a growth trajectory.

We have been able to better this year's plans on almost every dimension we can impact. Now the needle is beginning to move, as evidenced by positive global POS in Q1, and we will continue to optimize the 2015 programs throughout the year. One area where progress has been particularly significant is marketing. Beginning with the foundation of a single global marketing campaign, that evolves throughout the year, we have developed more effective merchandising programs and our best-testing Barbie advertising in years.

We have made a stronger connection with mom a marketing priority for the brand, and we will soon begin an integrated campaign designed to reinforce Barbie's positive values, and the importance of imaginative play. We are tracking and closely monitoring the effectiveness of each of these advertising investments to inform marketing decisions. Not simply for Barbie, but across our entire portfolio.

We've also increased the impact of this year's Barbie content offering, by adding a third DVD movie to the annual plan. As you know, these releases can have a strong positive impact on sales, and this year, all three movies are much better integrated with the marketing strategy than in the past.

In Q2, the brand will take a bold and exciting step to enhance Barbie's relevance with the most diverse line of multicultural, multiethnic fashion dolls ever created, more than 20 in all, reflecting today's world as every girl and their moms see it. This will be an important cultural milestone for the brand, that we will celebrate in videos, digital, traditional, and social media, merchandising, and which will also be recognized with a major photo feature in Italian Vogue. It represents both real-world product relevance, and global fashion credibility on a scale that only the Barbie brand can achieve. We're only getting started, but are making big strides quickly.

Most importantly, we're seeing renewed enthusiasm for Barbie building with consumers and retailers alike. As important as our continued progress in 2015 will be, I'm confident that 2016 will be a truly transformational year for the Barbie brand.

Now to Fisher-Price. For millennial parents worldwide, nothing is more important than giving their children a head start in school, and in life. Early childhood development is a rapidly growing business, and it's a good one to be in. And it also is at the heart of the Fisher-Price DNA.

That's why we're focusing on positioning Fisher-Price to be the premier global brand in early childhood development, and with this renewed vision and purpose for the brand, Fisher-Price marketing is already becoming integrated and effective.

The Fisher-Price marketing strategy has been completely integrated for 2015, and our worldwide Best Possible Start campaign, which began in Q1, exemplifies the brand's new focus with digital, broadcast, and events all reinforcing the early childhood development expert positioning. Millennials turn to digital resources for information on parenting, childhood development and products for infants and preschoolers, and we have extensive digital marketing programs to connect with these parents when they do, including digital advertising, social media, and engaging web design.

Innovative product is an essential to the evolution of Fisher-Price, and we're developing compelling products and features that uniquely answer the wants and needs of millennial parents. Connectivity is rapidly growing in importance to young parents who want to stay engaged to their babies. This insight led to the proprietary award-winning Smart Connect line, which uses innovative technology to help busy young families. We're really pleased with the early performance and the potential for this line, and are continuing to develop and expand it.

Fisher-Price is also emphasizing and developing new strategic partnerships that expand brand expertise and invention. Earlier, I introduced our new partnership with Quirky, which has significant implications for Fisher-Price. Other high profile partnerships specific to Fisher-Price are currently in the works, and while they are not quite ready to be announced, I can tell you our plans for these collaborations ladder up to a major new offering from the brand, and I will have more on that this fall.

The transformation of Fisher-Price won't happen overnight, but I'm pleased with how we been able to strengthen the 2015 plan where we could for this year. I'll be working closely with the Fisher-Price team as we continue to optimize throughout the year, and lay the groundwork for an improved 2016.

As Chris emphasized, the new brand strategies that we're implementing are only as effective as the strength of our commercial execution. I'll be continuing my close partnership with our Chief Commercial Officer, Tim Kilpin, as we bring Mattel's global brand and commercial teams into complete alignment. Our focus on best in class commercial execution emphasizes expanded partnerships with both brick and mortar and omnichannel customers to deliver more engaging retail experiences, new merchandising concepts, continuous brand support throughout the year, and targeted price value propositions.

We started the year with much cleaner retail inventory in North America and some international markets, enabling brands to more clearly showcase new product news, as we demonstrated in Q1, with the Barbie global retail statement and a major retail display partnership for Thomas, commemorating the 70th anniversary of the brand. In addition, we're creating retail executions that reflect the excitement around our new high-tech toys, such as Google View-Master, Hello Barbie and the new



Matchbox Treasure Truck. And where it makes sense, we're partnering on first-to-market launches with key retailers, enabling early reads and differentiated retail support in the first months of innovative launches.

We have begun to collaborate closely with our top omnichannel customers to retarget shoppers to drive repeat purchases, and we are also expanding our app-based messaging and couponing, and we will continue to expand our omnichannel capabilities to additional retailers, collaborating on programs that drive growth both off line and online. E-retail is a priority growth channel for Mattel, and we have significantly increased our initiatives to drive momentum in this area.

In addition to expanding our category management resources with the e-tail partners, creating valuable digital assets such as our new Let's Talk Toys video campaign, and investing in e-retail partnerships in emerging markets, we have fully integrated our digital marketing and e-retail teams for greater focus and impact. We are continuing to recruit senior digital experts from outside Mattel, with an emphasis on enhancing our conversion marketing and digital partnering capabilities.

And finally, as Chris indicated, we are accelerating investments and partnerships in the growing consumer economy in China, to drive expansion across cities and additional channels of distribution, and to extend marketing support for our core brands and toys. I will have significant news about our progress in China on upcoming calls.

Overall, I am encouraged by what I see as a new focus, determination, and will to lead at Mattel. We are taking the big bold steps our turnaround plan requires, from the development of a comprehensive plan to the optimization of our organization and capabilities, and to the exciting new partnerships that are super charging our expertise.

And in my new role as COO, I look forward to working with Chris, driving our strategy forward, and helping lead Mattel's turnaround. As we move ahead, we're finding new inspiration, are taking more swings, and are absolutely committed to changing the trajectory of our business, and leading the growth of our industry. I look forward to continuing to update you on our progress in the quarters to come.

Now, here's Kevin Farr, the Chief Financial Officer of Mattel. Kevin?

Kevin Farr - Mattel - CFO

Thank you, Richard, and good afternoon, everyone. Since we last spoke, we have been keenly focused on the turnaround of our business.

As expected, foreign exchange negatively impacted our reported first-quarter results. Looking beyond currency, the quarter did reflect solid progress in stabilizing the business, as we saw encouraging trends in our top line revenues and global POS. Worldwide net sales of \$923 million were down 2% for the first quarter in US dollars. In constant currency, worldwide net sales were up 5%.

Due to the significant strengthening of the US dollar, we believe analyzing our business on a constant currency basis is more meaningful to understand our business results.

Further, we have adjusted our comparative P&Ls to present non-GAAP financial measures that exclude certain items related to MEGA and severance related to our cost savings initiatives. We believe this provides better visibility to the underlying performance of our business, while we execute on the turnaround.

Moving to the first-quarter results, normalizing for Easter, global POS was up low single-digit on a comparable year-over-year basis. Looking at the middle of our P&L, our gross margins were down 210 basis points, consistent with our expectations, which included the negative impact of mix, primarily related to the acquisition of MEGA, and higher royalty expense related to licensed properties.

The increase in product related costs were essentially offset by our price increases, and our cost savings initiatives. Our advertising rate was higher, reflecting our investments to support key core brands throughout the year, including additional spending in China and Russia to accelerate growth.

Adjusted SG&A was flat to the prior year in absolute dollars. This includes ongoing SG&A related to MEGA as well as Funding our Future cost savings initiatives, which we are aggressively pursuing in 2015.

As Chris said, we are committed to delivering the high end of the \$250 million to \$300 million range for this program by the end of 2016. In 2015, we expect to deliver \$125 million in gross savings, primarily in the second half of the year. In the quarter, our adjusted operating loss was \$14.6 million, which reflected lower sales and gross margins and higher advertising spending, compared to an adjusted operating profit of \$27.7 million in 2014. Adjusted EPS for the quarter was a negative \$0.08, which included a negative impact of \$0.03 per share related to foreign exchange.



Now, let's review our performance by core brands. On a global basis, we're off to good start to the year with positive POS momentum for all of our core brands, with the exception of Monster High. Barbie POS was up mid single digits on a global basis, with double-digit gains in the US partially offset by a mid single digit decline internationally.

Worldwide shipping for Barbie was down 5% in constant currency, with the US down 2% and international down 6%. **[Clarification: Barbie shipping in North America was down 2% and international shipping was down 6%].** We continue to work through higher international retail inventories in some markets, primarily in Europe. We were pleased with the improvement in Barbie, particularly in the US, with the success of Princess Power, and we would expect to see shipments of POS more closely align as the year progresses.

Global POS for total Fisher-Price Brands including Thomas was up mid single digits with both the US up low single digits, and international up low teens. Global shipping from Fisher-Price Brands was up 3% in constant currency, with North America up 3%, and international up 4%.

American Girl sales for the quarter were flat versus the prior year in constant currency, with solid results for the Girl of the Year and our newly-refreshed BeForever historical line, which was offset by My American Girl. Our new retail stores in Orlando and Charlotte are exceeding expectations, and we are continuing to expand our shop in shops with Indigo in Canada.

For Hot Wheels and Thomas, we continue to see solid gains for POS and shipments in both the US and international markets in constant currency. As it relates to our high school franchises, it was another challenging quarter for Monster High, as global POS declined in the high teens and shipments were down significantly in constant currency. Ever After High continued to gain traction with global POS and shipping both up in the quarter in constant currency.

On a regional basis, comparative POS for North America was up low single digits, driven by good momentum in Barbie, Ever After High and Hot Wheels, partially offset by declines in Monster High. Shipments in our North American region were up 9% in constant currency, reflecting positive POS momentum and a much improved inventory situation at retail, as we exited 2014.

In international markets comparative POS was up by mid single digits, driven by momentum in Hot Wheels and Fisher-Price. Shipments in our international division were up 2% in constant currency, reflecting fairly broad based growth in our Asia-Pacific region, as well as parts of Latin America, partially offset by continuing challenges in retail inventory overhang in some key markets, particularly Europe.

Looking at international markets in more detail, sales in our European region were down 5% in constant currency, driven by core brand softness in some Western European markets, partially offset by growth in Russia. Sales in our Latin America region were up 9% in constant currency, led by Mexico and Brazil, our top two markets in the region. And sales in our Asia Pacific region were up 18% in constant currency, driven by continued strong growth in China, as well as a return to growth in Australia.

Turning to our balance sheet, our balance sheet continues to be strong, where our owned inventory was down about \$70 million year-over-year excluding the impact of MEGA Brands. And we ended the quarter with \$683 million of cash on our balance sheet.

Our first-quarter results also reflect our ongoing commitment to disciplined capital deployment. As Chris said, dividends remain our first priority after reinvesting in the business, and the Board declared a second-quarter dividend of \$0.38 per share, which is flat compared to the second quarter of 2014.

As we look ahead at the full year 2015, to help you better understand our near-term goals for a turnaround at Mattel, we're providing some additional information about key P&L metrics. As Chris said, we expect that currency will be a significant headwind in 2015, as it will be for most multinational companies. We estimate that currency will negatively impact net revenue by approximately 4% to 6%, and adjusted EPS by \$0.30 to \$0.35 per share.

The 4% to 6% top line impact from foreign exchange is due to translation adjustments. In addition, we anticipate a negative impact in gross margins in 2015, due to the year-over-year impact on intercompany sales of inventory from the significant strengthening of the US dollar year-to-date in 2015 versus 2014, which is partially offset by hedging. Our biggest currency exposures are the euro, real, ruble and peso, based upon our geographic sales mix. But our manufacturing facilities in Mexico help to provide a natural hedge to partially offset some of the impact of the weakening peso. The currency headwinds will be most pronounced in the second half of the year due to the seasonality of our business.

Going into full-year 2015 outlook in a bit more detail, consistent with our efforts to turn around the business and put the Company back on track for growth, we're working to stabilize net sales for the year versus 2014 on a constant currency basis. On the gross margin front, we should see some tailwinds from execution of our aggressive cost savings initiatives, favorable commodity trends and pricing, but are facing headwinds like unfavorable foreign exchange, mix, higher royalties, and higher product costs, primarily driven by labor. Taking this all into consideration, we continue to target gross margins of about 50% in the near term.



For advertising, we expect to invest more in advertising in 2015 as a percentage of net sales, so we can maintain our brand engagement on key core brands throughout the year, with advertising peaking in the holiday season, as well as make incremental investments in China, Russia, and MEGA Brands to drive higher demand. Overall, we're likely to spend at the high end of our 11% to 13% long-term objective.

We remain disciplined on SG&A. We're targeting adjusted SG&A to be down in absolute dollars versus 2014 adjusted SG&A, as we aggressively pursue our Funding our Future cost savings initiatives. And assuming no changes in current tax laws, we expect our tax rate to be 20% to 21% for 2015 and beyond.

Moving to cash flow outlook, we will continue to manage working capital tightly, and we expect CapEx to increase slightly to about \$270 million, as we continue to invest for growth in our business.

Dividends remain our first priority after reinvesting in our business. As we continue to execute aggressive cost reduction initiatives, we believe we can make the investments necessary to grow our business, while continuing to maintain our current dividend. Clearly, as we have historically done, we will regularly evaluate capital deployment priorities with the Board, as the year progresses. Finally, despite the currency headwinds, we expect to end the year with cash of \$800 million to \$1 billion, which is consistent with our Capital and Investment framework.

In closing, while we recognize it is a seasonally small quarter and we have a lot of work to do, we did see some signs of stabilization in core brand POS in the first quarter, as well as improving overall shipping trends in constant currency. We firmly believe our challenges are grounded in execution, and we believe that these early directionally encouraging top line results represent solid progress to stabilize the business and restore growth.

As Chris said, we continue to work through the impacts of retail space losses, inventory overhang in Europe, and significant competitive pressures. However, we are aggressively addressing these issues to quickly turn around Mattel. We look forward to sharing our progress in the coming quarters.

Thank you, and now we'd like to open up the call for questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions)

Tim Conder, Wells Fargo.

Tim Conder - Wells Fargo Securities, LLC - Analyst

Thank you all for the added color and the financial directives here, and Richard, thank you for some of the additional details also. One of the pieces there I wanted to drill into is the feedback mechanism. You talked a little bit about that, how you're monitoring the effectiveness of the marketing spend, and how that is integrating with some of your new partners.

Could you maybe expand on that from an enterprise-wide basis, how Mattel goes about maybe collectively monitoring the digital engagement, how your brands are accessed by consumers? And then how you pair that up with the retail activity and feed back into how you look at product development?

Richard Dickson - Mattel - President & COO

Thanks, Tim for the question. We have a variety of different means and ways to get statistical information around the world. Certainly, our research group is well-equipped to study obviously the consumer in various different tests that we have around the world, whether that be pricing tests to marketing test effectiveness. We test all the commercials that we deliver out to the marketplace prior to them going, obviously, to test engagement with girls and reaction. But certainly the easiest result is when we see POS lifts, and we see scores on the board happening at retail.



From a digital perspective, we have all of what we'll call traditional means of engagement. Various different means to assess and evaluate our engagement statistics, all of which are part of our digital group. And as we align these functions around the Company, we're getting much more sophisticated in actually using the data and leveraging it to execute new programs around the world.

Specifically, we obviously don't share the specifics of how we do it and the numbers themselves, but we're using much of the information to reprogram, test and learn, and react very quickly in the marketplace, both in the digital community and in our traditional marketing effectiveness.

Chris Sinclair - Mattel - Chairman & CEO

This is Chris. Let me embellish a little bit this year, one of the other things we're spending a lot of time on is trying to get early reads in the market on discrete programs and things like pricing. So we are doing a series of high-level spend tests right now on some of our core brands, which if successful obviously, we can accelerate quickly as we go into the back half of the year.

Pricing is vital, particularly in some of the markets where we're having so much foreign-exchange pressure. So we've instituted a series of price tests, which will get us to a lot smarter position on what we can and can't do as we exit through the year. So I think Richard is right. We've got a lot of testing, a lot of protocols in place, but I think we're dramatically stepping up real-time testing and high-level testing.

Tim Conder - Wells Fargo Securities, LLC - Analyst

Chris and Richard, on that front, how far are you would you say into realigning that type of overall corporate-wide feedback mechanism, whether it's pricing or whether it's the engagement or anything? Should that be completed by year end, the end of next year? Where we along the pathway?

Richard Dickson - Mattel - President & COO

I will be honest with you Tim, it's a day-to-day decision-making task. We have various different tests as Chris suggests, whether that is regional in context of pricing, retail execution, digital, media. We're leveraging all of the information that we have in making real-time decisions across multiple functions, on an ongoing basis. Difficult to use examples specifically, because there are variety of different things happening, but we are reacting in real time and effectively moving media and various different learnings applied around the world, as we see fit.

Chris Sinclair - Mattel - Chairman & CEO

Yes, I think as we look to the future, we're going to build on those learnings and to continue to do it, to have it quickly drive our business.

Tim Conder - Wells Fargo Securities, LLC - Analyst

Okay, and Kevin, one last if I may, clarification. On the funding in the future, you talked about gross savings. Any direction or commentary that you can give us on a net savings, whether that for be this year or by the end of 2016?

Kevin Farr - Mattel - CFO

Tim, we're aggressively working on this program, and I think as we talked about, we're at the high end of the \$250 million to \$300 million range, and we expect to deliver about \$125 million this year, of which about 50% of that would go to gross margins, about 50% to SG&A, and I think we're going to continue to look for opportunities to streamline the business, and we're going to continue to make investments as it makes sense to get those savings.

Tim Conder - Wells Fargo Securities, LLC - Analyst

Okay, so it's still a little bit in flux on a net basis?

Kevin Farr - Mattel - CFO



That's correct.

Tim Conder - Wells Fargo Securities, LLC - Analyst

Okay, thank you, gentlemen.

Operator

Linda Bolton Weiser, B. Riley.

Linda Bolton Weiser - B. Riley & Co. - Analyst

Can you, Kevin, just comment on your accessibility to commercial paper in order to fund working capital? And if that's been impacted at all by the Company's declines in earnings last year?

And also, do you expect to be able to have availability under the credit facility as a backup to the working capital funding? I'm just testing here whether there's any issue at all, even if earnings don't come up maybe according to plan, whether there's any issue at all about funding working capital in the first part of the year? Thanks.

Kevin Farr - Mattel - CFO

We have strong liquidity. We do have, as you mentioned, the backup revolver of \$1.6 billion, but we have got credit ratings. We've got A minus with Fitch. We've got strong investment credit ratings with S&P and Moody's, and we had very liquid access to commercial paper markets. So we've got strong liquidity in 2015.

Linda Bolton Weiser - B. Riley & Co. - Analyst

And also, just on the currency impact on the sales and earnings. In terms of the gap between the impact between bottom line and top line, the negative 5% top line and negative 20% bottom line, that is one of the biggest of all the companies really I follow, that the biggest impact on the bottom line that I've seen, given the top line of negative 5%. Can you just further explain that?

I guess it's the idea that you have so much production in Asia, I guess that's the issue. And also if you look at the currency comparisons, they actually flatten a little bit by the fourth quarter, if currency stays where it is now. So why would the impact get so much bigger, say in the third and fourth quarter?

Kevin Farr - Mattel - CFO

It really has to do with the seasonality of our business. And I think, as we look at the currency from the top line perspective, it is 4% to 6%, but when you weight that to our profile, which is more weighted to Europe and to countries like Russia, Brazil and Mexico, that's where you see us based upon our weighted sales mix, so that's why it has such an impact to our bottom line of \$0.30 to \$0.35. And basically when you look at our cost, China doesn't really factor in, because really our dollar costs, our cost of our inventory are US dollar costs.

Linda Bolton Weiser - B. Riley & Co. - Analyst

Okay, thanks. And then finally, actually your comments about POS, and actually your actual shipment or sales performance in the quarter was quite a bit better than I guess I would have expected. How did you so quickly turn a worsening of POS, I believe you had said in fourth quarter POS performance kind of worsened versus third-quarter.

How did you turn that around to such an improvement so quickly in the first quarter? What was done so quickly, and it sounds like you're talking that this is a trend, that it's not just a one-off, or that you think it's a beginning of a favorable trend. So could you give a little more color? Thanks.



Chris Sinclair - Mattel - Chairman & CEO

I'll let Richard maybe take a crack first.

Richard Dickson - Mattel - President & COO

I think what we're most pleased with is specifically the Barbie trend, which has had obvious challenges, and we've had a nice early read, that the programming work that we've done that I mentioned back last year, where we -- literally no rock has gone unturned in the context of our marketing programs. We mentioned that we completely re-did all our commercial advertising creative, testing -- most effective tests that we've had in years.

Completely new graphics associated with the commercial advertising, we've refreshed all of our merchandising in our stores. We emphasized the tent pole specifically that was in the mix which was Princess Power into a pop culture trend, that really leveraged the power of the global connectivity that Barbie has in pop culture, to really create a superhero, if you will, trend in the marketplace.

In addition to that, our digital alignment across all touch points of Barbie, reinforcing the same messaging. And last but not least, our renewed partnerships at retail. Our commercial group has done a brilliant job executing against these tent poles, working and collaborating with our retail partners, to ensure that the Barbie presence and merchandising mix is properly displayed.

And last but not least, we took a good look at our media mix and made adjustments accordingly, to ensure all of these programming works were best executed and delivered. And we're pleased with the results so far, and as I mentioned, we continue to tighten up. It's a daily event here, looking into second quarter, third and fourth. But we are quite pleased with the early read so far with the work that we've applied.

Kevin Farr - Mattel - CFO

And I would also add to that, I think ending the year with clean retail inventories in North America and good products at retail to start the year, from that perspective, we saw good lift on POS across our brands except for Monster High, and I think that helped us too. And we also saw it in place like Brazil in Mexico, where we were relatively clean on inventories as we entered the year.

Linda Bolton Weiser - B. Riley & Co. - Analyst

Great. Thanks very much.

Operator

Drew Crum, Stifel.

Drew Crum - Stifel Nicolaus - Analyst

One of the strategic objectives you talked about in the slide deck was to increase growth in emerging markets, and invest in expanded sales and distribution. Can you give us a sense as to what the incremental investments look like there, and any sense on timing?

Chris Sinclair - Mattel - Chairman & CEO

I don't know if we want to give you any specifics on that, Drew, but I would tell you it's a substantial amount of money in China, and we have been gating it out there, testing as we go. But that will be ramping up through the balance of the year. Russia, we've also stepped up our investment, but we're being extremely careful there to ensure that we don't have any problems on receivables, or getting our money back on inventories. So we're controlling that tightly. But so far, even in Russia, we're finding we're getting pretty good POS momentum and stepping up investment as we go.

Kevin Farr - Mattel - CFO



And those investments in emerging markets are both advertising to create higher demand around our core brands, and it's also in places like China, more boots on the ground in China, to basically continue to have more sales people and cover more distribution points.

Drew Crum - Stifel Nicolaus - Analyst

Got it, okay. Two questions for Richard. Richard, you have been back with the Company now for about a year, and you've had an opportunity to observe Monster High, it's been on a downward trajectory for the last couple of quarters. Is this a brand that you think can be saved from a holistic perspective? Is it one that you want to throw a lot of money at, reinvest in this franchise? I just want to know how you're thinking about Monster High as you look ahead.

And then you also alluded to a renewed focus on monetizing some of the brands through film, and just wanted to get a sense as to what properties you are looking at, and what the timing is there. Thanks.

Richard Dickson - Mattel - President & COO

Sure, as it relates to Monster High, despite the fact that we're experiencing challenging POS, it remains a top five fashion doll property globally, generating an enormous amount of sales and credibility around the world, not only with consumer engagement, but with retailers. We continue to manage Monster High, transitioning if you will, from a growth property into what we're defining as an evergreen core brand.

Based on everything that we see from research to consistent feedback from consumers and retail response, Monster High is absolutely a strong, viable property. In fact, we see areas of real opportunity, as we started to engage in our consumers, both digitally and with research showing them new product associated with what's coming in the back half, which again I have mentioned. Scale, new forms, various new content associated with what we'll call surprising and delighting the core consumer with Monster High to the point where we really believe that this is absolutely a viable brand moving forward.

And we've also started to leverage our assets that we've been building in the high school franchise, if you will. Ever After High, we've been building a nice slow build. We're continuing to be pleased with the POS and impact, we're getting more and more results of girls engaging with the brand.

We've done a great new content offering, working with Netflix, where Ever After High will be launching a new Netflix original content series this spring and fall, and by combining Monster High and Ever After High into an overall high school franchise, if you will, we really believe that there's further opportunity for expansion in the brand. That being said, we're working on the blocking and tackling through this difficult period of reengaging, if you will, in the front half, for what we hope to be will be a nice recovery in the second half for the franchise.

As it relates to theatricals, it's obvious in today's world that content is an incredible mover, as it relates to any brand, particularly in the kids space, and movies certainly move mountains. If it's a good film, and it has a good proposition, and then certainly it can drive a lot of toy value. We experienced that with being a licensee of many of the top properties in movies that are out there, and we have agreements in place with some top studios and talent for some of our most iconic and core brands, brands of course like Barbie, Hot Wheels, our primary brands that we intend on featuring theatricals for.

We are evaluating creative, we are making sure that we work with the best in class as we develop these stories, but ultimately we are determined to work on that behalf and release a theatrical, on one of, if not more than one of our core brands, in the coming years. There will be more updates on that as we develop more progress against those initiatives.

Drew Crum - Stifel Nicolaus - Analyst

Thanks.

Operator

Jaime Katz, Morningstar.

Jaime Katz - Morningstar - Analyst



I think you have been talking about inventory and pockets of inventory that have been concerning over the last handful of quarters. I'm curious where you feel you are, maybe in innings, on working through that? Because it seems like every quarter they're working down more and more, but there are still these pockets of inventory. So can you maybe speak to that?

Kevin Farr - Mattel - CFO

Maybe let me speak to it by region. I think in the US, as we said, exiting 2014, our inventories were down 30%, and as we exit the first quarter, it's also down 30%. So I think from the perspective of inventories, I think in the US we're in pretty good shape. I think that's true in Latin America, too, in places like Brazil and in Mexico.

So really I think when we look at inventories in total, it's really an overhang in Europe that we have talked about. We have made some progress in the first quarter, and as we get to looking forward, we are going to be working aggressively to get that inventory to where it needs to be prior to hitting the holiday season.

Chris Sinclair - Mattel - Chairman & CEO

This stuff in Europe is really rifle shot at a few brands and a few core markets. Unfortunately, it's part of the reason why we were a little sluggish in the first quarter in Europe, but as we work this stuff aggressively, we want to be in position by the time we hit the important fall season to make sure that's cleaned up. Beyond that, I don't think we're in bad shape anywhere, I think it's starting to clean up pretty well.

Jaime Katz - Morningstar - Analyst

Okay. And then for Fisher-Price, the cadence of the slowdown really turned itself around, at least in North America, where there's no FX headwind. Is there something that changed this quarter, or some different product launch that we should be thinking about, that maybe drove that? Or maybe what has helped that resonate with consumers a little bit better?

Richard Dickson - Mattel - President & COO

We're encouraged by our Fisher-Price results for the quarter. Global Fisher-Price POS, including Thomas, was up with both, as Kevin mentioned, US up in low single digits, and international up also in low teens.

Frankly the work that we've been doing with Fisher-Price over the course of many months, in fact years, has been starting to prove itself. Markets are getting more streamlined and clean. We've initiated a major marketing campaign as I mentioned, Best Possible Start, which has been uniting the brand with a global initiative, that is streamlining much of the fragmented communication with a very directed message.

The brand has delivered some really wonderfully innovative product, as I mentioned, the Smart Connect line. There's been some great testing and the concept of some new advertising that we've created. And we are seeing some great traction across all of the product lines. So all in all, as I mentioned, we're very encouraged with the work that the Fisher-Price brand group has done. We're starting to see early reads that are encouraging, and I think as we continue in our efforts to present the brand as a child development brand, with all the new messaging that we're putting forth with the globally-aligned statement; hopefully that trend will continue.

Chris Sinclair - Mattel - Chairman & CEO

Fisher-Price is pretty broad-based in its traction right now, and it's an enormous success in places like Asia and Latin America, so we're getting some benefit from that lift, as well.

Jaime Katz - Morningstar - Analyst

Okay.

Kevin Farr - Mattel - CFO



And I think the other line that's doing well is one that is doing well is Imaginext, which has been a challenge for us the last couple of years.

Jaime Katz - Morningstar - Analyst

Yes. Lastly, was there anything that stood out in Asia-Pacific, in the region that really catalyzed that segment?

Kevin Farr - Mattel - CFO

Yes, I think it's good growth in China, and I think after a couple of years of challenging comps with regard to Australia, we did see Australia get back to growth in the first quarter of this year.

Jaime Katz - Morningstar - Analyst

Okay, thank you.

Martin Gilkes - Mattel - VP of Corporate Strategy & IR

Nicole, I think we have time for one more question.

Operator

Steph Wissink, Piper Jaffray.

Steph Wissink - Piper Jaffray & Co. - Analyst

Just a couple of housekeeping items. I want to make sure I understood, global POS, I think you indicated up low single digits adjusted for Easter. Is that correct? Then also, does that include or exclude MEGA on a comparable basis? And then second with respect -- go ahead.

Kevin Farr - Mattel - CFO

Let me answer that. With regard to it, it is comparable to the fact that Easter was two weeks earlier. We did adjust it to make it comparable, and it does exclude MEGA.

Steph Wissink - Piper Jaffray & Co. - Analyst

Okay, thanks. And then Kevin, just with respect to your comments on cash. I think you mentioned \$800 million to \$1 billion at year-end. Does that assume any incremental debt to what you're carrying today? And if you could, just give us an update on the gross to net revenue spread, I think that's been something we've been watching as you report your Qs. If you could give us that update, that would be great.

Kevin Farr - Mattel - CFO

Yes, I think with regard to debt, no, there is no incremental debt planned in getting to the \$800 million to \$1 billion. And with regard to sales adjustments, again, I'm not going to get into what we expect for the year, but I think it's going to be higher than average. Our average has been about 9% it's probably going to be more of the same of what it was last year, as we really look to drive top line in 2015.

Steph Wissink - Piper Jaffray & Co. - Analyst



Okay, that's really helpful. And then my last question is with respect to back half bookings. If we just take the guidance that you gave us line by line, it would imply that the back half might not be as robust as the quarter you just reported. So give us some sense of your retail interactions and how maybe the holiday is shaping up in terms of bookings trends in this point?

Chris Sinclair - Mattel - Chairman & CEO

Steph, I'm not quite sure how you interpret that, but we don't expect any deceleration as we go through the back half of the year. We have got a lot of activity building. I think our retail activity is probably stronger, our media is stronger leading into the fourth quarter. So we have a lot of headwinds, but we're not looking for a tail off, if that's your question.

Kevin Farr - Mattel - CFO

I guess my comments related to ForEx, and having ForEx be, from a perspective of bigger impact, bigger impact on the back half of the year, only because that is the seasonal nature of our business, and that's probably more directed on the EPS piece than on the sales piece.

Steph Wissink - Piper Jaffray & Co. - Analyst

So Kevin, just to clarify, your comments on revenues being flat are consistent with 2014. That was including foreign currency?

Kevin Farr - Mattel - CFO

Again, I didn't give you guidance on revenues. What I did say is that we're going to work very hard this year to get back to making progress. Chris said over the long-term we want to deliver revenue growth in the low to mid single digits. As we look at 2015, we want to make progress on that, but we do have headwinds with regard to currency to be likely. So what I said is look, in 2015 we want to make progress in stabilizing the business on a constant currency basis.

Steph Wissink - Piper Jaffray & Co. - Analyst

Okay, thank you. I'll follow-up off-line.

Martin Gilkes - Mattel - VP of Corporate Strategies & IR

Thank you. There will be a replay of this call available beginning at 8:00 PM Eastern time today. The number to call for the replay is 404-537-3406, and the passcode is 9012257. Thank you for participating in today's call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program. You may now disconnect. Have a great day, everyone.

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