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MAT - Q2 2014 Mattel Inc Earnings Call

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OVERVIEW:

MAT reported 2Q14 EPS of $0.08.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Mattel's second-quarter 2014 earnings conference call. (Operator Instructions). As a reminder, today's conference is being recorded. I would now like to introduce your host for this conference call, Mr. Drew Vollero, Senior Vice President of Corporate Strategy and Investor Relations. You may begin, sir.

Drew Vollero ***- Mattel, Inc. - SVP Corp. Strategy & IR***

Thank you, Kevin. As you know, this morning we reported Mattel's 2014 second-quarter financial results. We've provided you with a slide presentation to help guide our discussion today. The slide presentation and the information required by Regulation G regarding non-GAAP financial measures is available on the Investors section of our corporate website, corporate.Mattel.com.

In a few minutes Bryan Stockton, Mattel's Chairman and CEO, and Kevin Farr, Mattel's CFO, will provide comments on the results and then the call will be open for your questions.

Certain statements made during the call may include forward-looking statements relating to the future performance of our overall business, our brands and our product lines. These statements are based on currently available information and they're subject to a number of significant risks and uncertainties which 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 2013 annual report on Form 10-K, in our 2014 quarterly reports on Form 10-Q, 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. Now I'd like to turn the call over to Bryan.

Bryan Stockton ***- Mattel, Inc. - Chairman & CEO***

Thank you, Drew, and good day, everyone. We've always approach the first half of the year as the “pre-season” where we do a lot of work preparing to execute in the all-important back half of the year.

Going into 2014 we knew we had to build a plan using realistic revenue assumptions that focused on optimizing the middle of the P&L. And because we exited 2013 with a lack of momentum on our core brands, we also said the key to success in 2014 would be to improve POS by focusing on product and brand innovation, improving the execution of our advertising and trade spend and by leveraging our tailwinds.

One important second-quarter headline is, of course, the acquisition of MEGA Brands, which gives us the opportunity to grow MEGA Brands' portfolio of brands while leveraging our brands in the fast growing Construction and Arts & Crafts categories.

And while our financial results to date reflect the costs of the acquisition, and a tremendous amount of work preparing all of Mattel to execute in the second half, we feel we've made significant progress across a number of initiatives that will help us reach our 2014 goals and better position us for this year and beyond.

Specifically we focused on five things: improving POS; reducing Mattel owned and retail inventories; testing the insights from our spending mix model work to develop more optimal media and trade spending programs to accelerate POS in the second half of the year; shifting advertising and trade spending to the back half of the year where it will be more effective; and managing SG&A expenses. And we've made progress against all five.

Our global POS has improved and, while we have a lot of work to do, we feel we're heading in the right direction. Global POS for the first half ended relatively flat with the US slightly down and international markets up, with POS performance stronger than shipments on almost every brand in the portfolio. This is a marked improvement in POS performance over the past two quarters. And our US POS results would improve even more if MEGA Brands POS were included in the calculation.

We made significant progress in reducing the year-over-year seasonal growth in Mattel owned inventories, which were down by $100 million excluding MEGA Brands for the first half of 2014 relative to year end.

Retail inventories have also improved. They're down mid-single digits in the US with only some pockets of inventory remaining in certain international markets. We successfully validated our spending mix model results for Barbie in the quarter and, as a result, will be expanding the model across our key brands. Based on this validation we decided to increase advertising spending in the second half to levels higher than planned to build momentum for these key brands.

We shifted advertising spending out of the second quarter and into the second half where it can be put to better use by aligning with the consumer's new path to purchase. This shift also helps to fund expansion of our spending based on the results of the spending mix model. And we held SG&A spending flat even with the costs associated with the MEGA Brands acquisition.

Despite this progress the financial results for the quarter did not meet our expectations. A key challenge to improving our top-line shipments and our overall results remains core brand momentum. And while POS has been improving, it's still well below where it needs to be on key brands like Barbie and Fisher-Price.

Also in the quarter revenues and gross margins were impacted as we continued to clean up and clear out pockets of owned and retail inventory. And revenues in the second quarter were impacted by the shift of advertising and trade spend to later in the year. In addition, the acquisition and integration costs, amortization and the required fair value inventory adjustments related to MEGA Brands also had a significant impact on overall EPS in the quarter.

Let me briefly speak to some of the key P&L results for the quarter. Revenues were down. Results on our doll portfolio were mixed with solid single-digit POS growth outpacing shipping, which was down in the quarter.

We continue to see strength in this portfolio which now features all of the top five properties in the fashion doll and accessory segment in the US per NPD. However, growth driven by Frozen dolls is beginning to be offset as we are seeing declines in Monster High shipping and POS.

Looking at performance by brand, the star of the portfolio in the quarter was our line of products supporting Disney's Frozen and we are continuing to chase demand here.

American Girl had another quarter of solid growth with the Girl of the Year, Isabelle, continuing to exceed our expectations. And we successfully launched the shop-within-a-shop concept at two Indigo stores, one in Toronto and one in Vancouver, Canada.

Ever After High continues to look like a solid single at this point as it continues its global rollout. It is now the fifth highest selling property in the fashion doll and accessory segment in the US according to NPD, trailing only Barbie, Monster High, Frozen and Disney Princess.

Barbie shipping was down; however, POS remains better than shipments and POS trends have been improving throughout the year. And Monster High remains the number two doll in the fashion doll category per NPD, but the brand is coming up against some very challenging comps.

And while shipping and POS are substantial on an absolute dollar basis, both are trending down versus prior year, specifically recent POS trends in Monster High are down mid to high teens. If these trends continue Monster High may shift from being a tailwind to a headwind.

And while our infant and preschool portfolio was down, we're seeing improving trends in global POS which is outpacing shipments. We did see pockets of improvement at Fisher-Price, including baby gear, where POS is positive year to date and building momentum. And we continue to improve our consumer awareness campaigns, particularly our digital advertising.

Shipping was down significantly in North America where we're working through high retail inventory in our Imaginext and Little People brands. But we're seeing improving shipping and POS trends in most of our international regions, which is a key focus for Fisher-Price.

Our Friends business overall is soft primarily due to tough comps for certain license properties. Thomas & Friends is seeing very strong global POS trends and positive sales within our international markets.

Our Boys portfolio was down driven by tough entertainment comps with last year's second-quarter shipments of Superman and Turbo, as well as the expiration of our Angry Birds license. These were partially offset by our global launch of BOOMco, our differentiated product offering in the blaster category.

And MEGA Brands continues to see solid single-digit POS gains driven by its Preschool and Boys Construction lines and shipments were in line with expectations but lower than prior year.

And while we continue to work to deliver margins in line with our near-term objective of low- to mid-50%s, second-quarter gross margins were below our expectations and were impacted by a series of headwinds, some related to MEGA Brands that Kevin will speak to in a few minutes.

Advertising spending is lower as we shifted spending from the first half to the second half of the year. And as I mentioned, we continue to be financially disciplined, managing SG&A spending and continuing to leverage our OE 3.0 programs.

Our second-quarter results also demonstrate our continued commitment to disciplined capital deployment. In addition to completing the acquisition of MEGA Brands, we also declared our third-quarter dividend reflecting an annualized dividend of $1.52 per share and repurchased approximately $100 million of Mattel stock.

Looking beyond the quarter, I am particularly encouraged by some important strategic developments that should benefit our business over the medium and long term.

First, the toy business is doing well in 2014, up between 3% and 4% in both the US and Europe according to NPD. This continues to validate our belief that innovation will drive growth and that toy and digital play both share time in a child's life.

Next, we're just starting the integration of MEGA Brands into the Mattel family of companies and continue to see tremendous potential. American Girl's expansion into Canada via a partnership with Indigo stores utilizing a shop-within-a-shop concept is also doing very well, far exceeding expectations to date. Early results are encouraging and we're evaluating the potential to expand the brand further in Canada as well as to other markets.

And finally, we made a number of organization moves that support our “how to grow” strategies to structure the business and place talent in key positions to grow it more profitably on a global basis.

Geoff Massingberd who ran our international business now leads our MEGA Brands business in Montreal, Canada and will manage the integration efforts as well as execute the global growth strategies.

Tim Kilpin, with his extensive experience in brand management, will replace Geoff as our Head of International Business where he'll have the opportunity to leverage his brand knowledge to grow the business globally and to differentiate our brands in many international markets.

And Richard Dickson rejoined Mattel as our Chief Brands Officer. Richard has extensive consumer brand experience and also led the revitalization and successful expansion of Barbie a few years back. Richard will oversee worldwide brand strategy for our Girls & Boys Brand portfolio as well as for the Fisher-Price portfolio.

We're confident that these moves will continue to drive long-term value for the shareholders and will support an ongoing culture of innovation, creativity and excellence that will continue to fuel growth throughout the portfolio.

As we look to the second half of the year, we're focused on driving POS higher, particularly on core brands. Our top priority remains to improve POS so we have strong product sell-through and exit the year with momentum in our brands for 2015. And we'll approach the second half the way we always do, making decisions to support our long-term goals while balancing the impact they'll have in the short term.

In 2014 we believe we have the product and brand innovation to drive sales and we believe we have the right insight given our spending mix model to drive advertising efficiencies and improve retail execution.

Product and brand innovation are a key to improving POS and we have a number of initiatives in place to deliver in the all-important holiday season including new product from Mattel brands like the Barbie Fashion Design Maker, the Monster High Monster Maker and the Hot Wheel Street Hawk.

New product from Fisher-Price like the Laugh & Learn Smart Stages line, and a new product initiative from American Girl with the re-launch of its flagship historical line now called “BeForever,” which will feature a more focused character assortment including the beloved Samantha coming back from the AG archives.

In addition to this year's American Girl expansion into Canada we'll be adding new retail stores in Charlotte, North Carolina and Orlando, Florida and we'll continue to roll at our new omni-channel marketing program.

We will also be launching a new Thomas direct to consumer initiative where the Thomas brand will leverage the American Girl infrastructure. This will include an exclusive Thomas catalog and online shop, as well as a premium shopping environment at select specialty retailers around the country.

We'll have a number of new entertainment licenses coming out in the second half of the year, including -- Disney Planes: Fire & Rescue; Dora & Friends: Into the City; Julius Jr.; Mia and Me; Minecraft and of course our Hot Wheels die cast Marvel and Star Wars licenses. We'll also benefit from the global rollout of BOOMco, the continued rollout of Ever After High and the acquisition of MEGA Brands.

And we have a significant amount of new content for our brands with four major DVD releases in the second half for our Girls portfolio including Barbie and the Secret Door, Monster High Freaky Fusion, Ever After High Throne Coming and American Girl's Isabelle Dances into the Spotlight. And we'll continue to have new webisodes and social media as well as website enhancements to support all of our core brands and Monster High. There's a new Hot Wheels DVD release featuring Team Hot Wheels: The Origin of Awesome and another strong fall DVD release for Thomas & Friends Tale of the Brave.

To maximize the effectiveness of these new innovations we're working to optimize our media strategy across the globe. We now have a roadmap to follow with our spending mix model. We've shifted spending to later in the year to give us more flexibility and funds in the holiday season, aligning our spending with where and when the consumer is shopping. We'll continue to work closely with all of our retail partners and look to leverage trade spending.

And we'll also look to invest additional monies to drive consumer engagement on core brands and Monster High on proven platforms like digital search, content and live events just to name a few.

So as we look to the third quarter we see continued challenges from some of the current headwinds including steep shipping comparisons for Monster High, pockets of high retail inventory in certain international markets and shifting of advertising and trade spend into the fourth quarter as we align with evolving consumer behavior.

As we move forward here, the organization is keenly focused on executing the fall season. We will make the right decisions and manage the business appropriately with the goal of ending this year with positive POS momentum and lower inventory so we can enter 2015 with momentum to drive top-line and bottom-line results.

We continue to focus on our commitment to grow with financial discipline, our commitment to our capital deployment and investment framework and our commitment to deliver our total shareholder return objectives.

Thank you for your time today and your continued interest in Mattel. Now we'd like to introduce Kevin Farr, our Chief Financial Officer. Kevin?

Kevin Farr *- Mattel, Inc. - CFO*

Thank you, Bryan, and good morning. Bryan outlined a number of initiatives that will help us achieve our full-year 2014 objective to improve POS. And while some of these initiatives are impacting our short-term financial results, we believe we're making the right decisions to manage the business for the long term.

This morning I want to briefly talk about or acquisition of MEGA Brands before we get into the slide presentation. We have already outlined a strategic rationale for the acquisition with you. With the deal now closed we're very excited to begin to execute on the opportunities we see to grow and improve the profitability of MEGA Brands business on a global basis.

We see tremendous potential for this business. Construction and Arts & Crafts right now are the two fastest-growing NPD toy categories. Combined the categories are over $10 billion in sales globally and prior to the acquisition Mattel really did not have a direct presence in either category. The more we participate in these categories, specifically with MEGA Brands, the more opportunities we see for Mattel on a global basis.

As anticipated the acquisition will be dilutive to earnings in 2014 as we expect profits from the business will be more than offset by acquisition and integration costs as well as non-cash inventory fair market value adjustments and amortization expenses related to the acquisition.

We continue to believe the acquisition will be accretive to operating income in 2015 with a full year of operating leverage and reduced integration and amortization expenses and increasingly accretive thereafter. Specifically for the second quarter most of our efforts were focused on closing the deal and getting the integration efforts underway. We are pleased with the progress to date on the integration. We've included a page in the slide deck outlining these related costs.

The current business performance is consistent with our expectations and we will update you periodically on the opportunity and our progress on leveraging and growing the business globally.

Now let's review our first-quarter results starting on page 4 of the slide deck. As you can see on page 4, our worldwide gross sales are down 8% for the quarter and down 7% year to date. Sales were impacted by our efforts to clean up retail inventories as well as our strategic shift of advertising and trade spending programs to the second half of the year. And while we see improving POS trends we still have a lot of work to do.

Turning to page 5 of the presentation you can see the brand perspective on sales. Worldwide sales for Mattel Girls & Boys Brands were down 13% for the quarter and 9% year to date.

In the Girls business declines in Monster High and Barbie were partially offset by strong demand for toys related to Disney's hit movie, Frozen, and the global launch of Ever After High.

In the Boys business Hot Wheels sales were down slightly for the quarter and entertainment was down with tough entertainment shipping comparisons due to last year's Superman movie and Max Steel, partially offset by solid demand for Disney's Planes and our initial global launch of BOOMco.

Worldwide sales for Fisher-Price Brands were down 17% for the quarter and down 12% year to date. Lower sales in the quarter were driven by declines in several Fisher-Price core brands as well as tough prior-year comparisons for some Disney and Nickelodeon licensed entertainment properties in Fisher-Price Friends. Finally, we were encouraged to see international growth in Baby Gear, Laugh & Learn, as well as continued international growth with Thomas & Friends.

American Girl continues to be strong with sales up 6% for the quarter and year to date with continued strength in the Girl of the Year property and solid results from its new retail stores.

And with the MEGA Brands transaction completed on April 30 we've added another revenue category to our portfolio, Construction and Arts & Crafts brands. The early business results for MEGA Brands are in line with our expectations.

As it relates to MEGA Brands’ outlook in general, we anticipate MEGA Brands' revenues on an annual basis to be lower than the historical average of $400 million driven by three factors. First, the acquisition was completed in April, so Mattel's results will only include eight months of revenue from MEGA Brands in 2014. Second, we expect lower international sales due to the transition of many distributor markets to Mattel subsidiaries. And third, we expect to divest selective non-strategic lower margin product lines in the Arts & Crafts category.

On page 6 we highlight the performance of our North American region. Overall sales for the region were down 8% for the quarter and down 5% year to date.

Our international business, as seen on page 7, was down 9% for the quarter and down 8% year to date. We continue to be encouraged by strength in our emerging markets in Russia and China. Softness in our core brands and some pockets of high retail inventory continue to impact our sales in Europe and Latin America. And softness in Australia and India impacted overall results in our Asia-Pacific region.

Now let's review the P&L starting on page 8 of the slide presentation. For the quarter gross margin was 46.4%, down 490 basis points from last year's record of 51.3%. About half, or 240 basis points, is due to MEGA Brands, which includes an 80 basis point or $8 million acquisition-related fair value inventory adjustment that should wind down by the end of the third quarter.

Excluding MEGA our gross margin in the quarter declined by 250 basis points. A little less than half of the decline was related to the impact of lower volumes on our fixed cost manufacturing base. About a quarter of the decline related to our efforts to clean up inventories. And the balance of the decrease primarily related to changes in mix mostly due to our Girls portfolio.

For the most part the increase in our product costs have been consistent with our expectations and we continue to expect to offset inflationary pressures with our pricing actions that were effective January 1, 2014, and savings from our OE 3.0 program.

On a year-to-date basis gross margins are down 420 basis points to 48.5%. About a third, or 130 basis points, of the year-to-date decline is due to MEGA Brands with 40 basis points, or $8 million related to the fair market value inventory adjustment.

Excluding MEGA gross margins year to date declined by 290 basis points. A little less than half of the decline in the first half was related to our efforts to clean up inventories. About a quarter of the decline was related to the impact of lower volumes on our fixed cost manufacturing base and the balance of the decrease primarily related to changes in mix mostly due to our Girls portfolio.

We continue to estimate that the overall negative impact of MEGA Brands, excluding the inventory fair value adjustments which should wind down in Q3, on Mattel's gross margins will be roughly 100 basis points.

As seen on page 9, selling, general and administrative expenses for the quarter were flat and up only $15 million year to date. Our commitment to manage costs is evident in our SG&A results where we've balanced our investments to fund strategic growth initiatives with ongoing cost to run the business.

Spending in the quarter includes $16 million of MEGA Brands' acquisition, integration and amortization costs, which are partially offset by the absence of last year's asset impairment charge of $14 million. For the full year our objective, excluding MEGA Brands, remains a modest increase in SG&A including severance and ongoing strategic growth investments.

Page 10 of the presentation summarizes the performance of our ongoing OE 3.0 program. For the quarter we delivered incremental Operating Excellence 3.0 gross savings of $25 million. And we're on track to deliver our full-year target of around $115 million in gross savings and our two-year target of cumulative gross sustainable savings of $175 million.

Turning to page 11, operating income in the first quarter was $1 million and $7 million year to date. The decrease in the quarter was driven primarily by lower sales in gross margins and the cost associated with the acquisition and integration of MEGA Brands.

Turning to page 12, our earnings per share for the quarter were $0.08, a decrease of $0.13 compared to the prior year's second quarter. The decrease in EPS was driven by lower operating income, including the costs associated with the MEGA Brand acquisition, partially offset by lower non-operating expenses, lower tax expense including a $0.11 benefit from discrete tax items, and a reduction in share count.

For the full year excluding discrete tax items, we expect that our income tax rate will be approximately 21% to 22% assuming no changes to current tax laws.

Page 13 outlines the costs related to the MEGA Brands acquisition including the estimated acquisition, integration and amortization expenses which impact SG&A, as well as the inventory fair value adjustments which impacts gross margins. We highlight both the actual costs incurred in the quarter and the estimated annual costs Mattel expects to incur in 2014.

For the quarter these expenses totaled $24 million and we expect these expenses to be between $85 million and $95 million for the year. The acquisition and integration expenses of $11 million are primarily cash cost that include such things as banker, legal and consulting fees. For the year currently we expect these expenses to be about $45 million to $55 million.

We also incurred a couple of charges in the quarter related to accounting rules that require that the opening balance sheet state assets at their fair market value. About $5 million in non-cash expenses related to amortization of intangibles and inventory fair value adjustments of $8 million.

For the year currently we would expect these non-cash expenses to be about $25 million in amortization of intangibles and about $15 million related to inventory fair value adjustments. The impact of the inventory fair value adjustments should wind down by the end of the third quarter, but the non-cash amortization costs and some integration costs are expected to continue in 2015 and beyond.

We discuss cash flow on page 14. Year-to-date cash flow used for operations was $79 million compared to $286 million last year. The decrease is primarily due to changes in working capital. Cash flow used for investing activities increased to $525 million due to the acquisition of MEGA Brands.

We also issued $500 million of additional debt in the second quarter and repurchased 2.6 million shares of stock for a total of $100 million. In June we paid out our quarterly dividend of $0.38 per share at a total cost of $129 million. Our cash on hand was $518 million, down from $823 million last year.

In closing, while we continue to work through our current headwinds we remain focused on execution in the all-important holiday season. Our goal is to enter 2015 with brand momentum to drive top-line and bottom-line growth. Specifically our objective is to end the year with POS momentum in our brands and lower retail in Mattel owned inventory.

Moving forward we remain committed to growing our business consistently, growing it profitably and deploying the cash generated in value enhancing ways to reward our shareholders. This concludes my review of the financial results. Now we'd like to open the call to questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions). Steph Wissink, Piper Jaffray.

Steph Wissink *- Piper Jaffray - Analyst*

Bryan, just one clarification for you. I think you mentioned that POS improved from the first quarter. Could you help us neutralize the effect of that Easter shift from March to April? Is POS still sequentially improved if you net out that Easter shift?

And then, Kevin, one for you. On the gross margin, I think you mentioned 48.5% year to date with a near term objective still in that low- to mid-50% range. That does imply a pretty substantial acceleration into the second half. So could you give us some of the drivers that you see in that gross or product margin line that we should be thinking about for the second half? Thank you.

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Good day, Steph. Yes, thank you for the question. If I take Easter out it is the same answer. So in other words, the POS would look even better if we didn't adjust for Easter in the second quarter. So it's adjusted for last year and this year's timing. So we feel -- I think that's one reason why we feel pretty positive about our progress and why it's better than Q4 last year and Q1 this year. Kevin?

Kevin Farr *- Mattel, Inc. - CFO*

And then with respect to your question on gross margin, with respect to gross margin, our near-term objective continues to be to deliver gross margins in the low- to mid-50%s range. And when I say near-term I mean the next couple years or so.

As you know, we don't give guidance. Our second-quarter gross margin declined by 490 basis points to 46.4% versus 51.3% in 2013. And about half of that, as I said, or 240 basis points is due to MEGA Brands which includes an 80 basis point acquisition-related fair market value charge that should go away by the end of Q3.

When you look at Mattel's underlying business excluding MEGA our gross margin in the quarter declined by 250 basis points. And the things that drove that were a little less than half of the decline was related to the impact of lower volumes on our fixed cost manufacturing base, about a quarter of the decrease is related to our efforts to clean up inventories, and the balance of the decline is primarily related to changes in mix mostly due to our Girls portfolio performance.

Consistent with prior quarters, input and labor cost increases remain headwinds but we've offset them with tailwinds of pricing and our OE 3.0 program.

As we look forward to the second half of 2014, predicting our gross margins is very challenging due to the complexity of all the moving pieces, including volatility and market based costs like input cost and foreign-exchange. However, I'll provide a few comments regarding the items that impacted our first half gross margins.

First, in the near term MEGA has a lower gross margin which will continue to have a negative impact for the balance of the year including a $7 million acquisition-related fair market value inventory adjustment yet to come.

Second, excluding MEGA, the changes in mix continue to be a headwind on gross margins going forward if we continue to see current POS trends in the Girls portfolio continue, with respect to Barbie and Monster High.

Third, the impact of efforts to clean up inventory should be less of an issue going forward.

And fourth, the impact of lower volumes depends upon your assumption regarding sales for the balance of the year.

And finally, we do have some tailwinds in OE 3.0 cost savings, primarily related to the packaging initiative and we continue to work on manufacturing efficiency programs which I said should be a tailwind in the second half.

Steph Wissink - ***Piper Jaffray - Analyst***

Thank you. Best of luck, guys.

Operator

Felicia Hendrix, Barclays.

Felicia Hendrix - ***Barclays Capital - Analyst***

Kevin, just quickly one quick question. For the Mattel owned inventory that you cited in your release and your deck on the $100 million (inaudible). How much of that is left for the remainder of the year? Or (multiple speakers) how much is that left rather?

Kevin Farr - ***Mattel, Inc. - CFO***

Again, I think as we ended the year, we ended the year with about $100 million more of inventory than the prior year. And when you look at the end of June, if you exclude MEGA inventory, we are essentially down about $100 million. The actual number is about $98 million. So we're flat with the prior year with regard to Mattel owned inventory. So most of the issue with regard to Mattel owned inventory is behind us as we exit the second quarter.

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay, so that's good, so that gives you kind of a clear slate heading into the second half.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, I think that's a fair conclusion.

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay, great. And then, Bryan, just a bigger picture question for you. In addressing the slowing revenues you've discussed several times now the need to make additional advertising and marketing investments and to better align that with the consumer. I'm just wondering in your view and if maybe you could give some color what you're hearing from the retailers.

How much of the slowing revenues at certain lines, particularly in Barbie, is due to marketing versus innovation? So just wondering that. And then just wondering also what you're doing internally so that you could have your finger more on the pulse of what the consumer wants.

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Sure, that's a great question and I'll try to keep the answer as brief as I can. I could speak for hours on that. Let's first start with how we're thinking about advertising and supporting our brands. We know that innovation is key to the success in this business and we also know that spending the right amount of advertising and trade is important.

So as we think about the year, we've spent a lot of time thinking about what happened last year. Recall last year we said a number of the promotions that historically worked did not work to the degree that they had before. That's why we decided to launch this initiative to look at our spending mix with a very sophisticated model.

That's given us some good insights into what we would see as the ever evolving consumer path to purchase with both online and brick-and-mortar opportunities to buy.

And we took the insights from that and we started validating the results that we got from that study in the second quarter. And I would say that the validation was a success. And as a result of that -- again, remember this is all done on Barbie -- we are doing a couple things.

Number one, it gave us the confidence to reinstate the advertising that we had decided to cut earlier in the year. So we're adding more advertising back into the plan for the second half. We think that's important. And we are going to continue to look at opportunities to do even more of that on brands like Fisher-Price and Monster High.

And the reason we feel good about it is, one, the validation; and two, we know this model is telling us where to do it and when to do it. And so, that's why we're shifting even more money into the fourth quarter where we think it will be more effective.

So I will start with I think we're a lot smarter about our spending than we were last year and we feel pretty confident about that. And that's why you'll continue to hear us talk about we're going to spend more than we had planned this year, we think that's a good thing. And because of the, I would say, the more immediate nature of the way that we're doing this testing we can learn quickly and modify our spending up and down as needed.

In terms of innovation, I'd tell you, I think we've got some pretty great things going on. I mentioned in my comments the Barbie Fashion Design Maker, Disney's Planes Fire & Rescue -- you know, Planes was a huge success last year, we think it's going to be solid again this year. It's way too early to make any calls on BOOMco, but BOOMco is getting some pretty positive reviews if you look online for reviews on it.

We talked about the Hot Wheels Street Hawk. I've talked about the fact that we're excited for the first time in our Company's history over a Star Wars movie and Star Wars with our Hot Wheels license.

And on Fisher-Price, we've talked a lot about Fisher-Price about the communication and innovation. And we showed you the Imaginext Rover last year, we're getting good pick up at retail with that. And Smart Stages with Laugh & Learn. So I think we've got some good products.

What I'd tell you with the organization changes that we put in place is we're really trying to create a culture of innovation. Geoff Massingberd is a great leader and he's going to do a wonderful job at MEGA Brands to integrate them into Mattel and drive growth there.

I tell you one of the reasons I am excited about Tim taking on the international assignment is Tim is great at connecting brands and countries. And that's really I think the next phase of growth for us in international is to make that connection. And I think that will give us more insights as to what we need. And we have had some successes.

The Soothe & Sleep Seahorse is one success and we want to replicate more things like that, that's by the way the Soothe & Sleep Seahorse in China.

And then lastly, I'm thrilled that Richard is coming back, he has got a great history. You all know the success he had in driving the success of Barbie. And Richard, I think, is going to drive a culture of innovation and competitiveness that I think is appropriate for us.

So there's a lot going on, but I tell you we're smarter in spending, we think we've got innovative products and we're creating a culture of innovation.

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay, great, that's really helpful. Thank you.

Operator

Greg Badishkanian, Citigroup.

Greg Badishkanian - ***Citigroup - Analyst***

Just on MEGA Brand. The $0.06 impact -- is that all inclusive or were there some inefficiencies or extra costs that were not included in that? And then the second part is just for MEGA Brands, what do you think the top-line -- when we start to see the top-line synergies? Because I think those could be pretty significant. But obviously it's going to take time for you to be able to implement some of your marketing and advertising strategies for them.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, Greg, so I'll cover the first one with regard to the $0.06 charge. It really relates to the charges that you see on the slide and those are integration and acquisition expenses, they are the amortization expense and they are the fair market value inventory charge.

Greg Badishkanian - ***Citigroup - Analyst***

And was there anything else do you think that maybe impacted results or is that pretty all inclusive?

Kevin Farr - ***Mattel, Inc. - CFO***

No, I just think it was just what is included is really their operation, their ongoing operations, which that is the normal operations for the quarter.

Greg Badishkanian - ***Citigroup - Analyst***

Great. And then synergies?

Kevin Farr - ***Mattel, Inc. - CFO***

I think with regard to sales synergies, I think a lot of the opportunities with regard to sales synergies of putting our brands on their platform. We won't see that this year as we're moving through, as I said, integration of their international distributors in Mattel, that's probably going to happen early 2015.

So from a synergies perspective on top-line, more to come next year. I think from a bottom-line perspective we'll see a little bit of synergies in the back half of the year with regard to SG&A. But more of that will also come online in 2015 as we incorporate them in our full-year results.

But the real synergies here is growing their brands globally on their platform, as well as putting our brands on their platform and participating in the great category of Arts & Crafts and in Construction. But we're moving quickly to integrate given the opportunity here to grow this business on a global basis as well as the competitive nature of these categories.

Greg Badishkanian - ***Citigroup - Analyst***

Great, thank you very much.

Operator

Drew Crum, Stifel.

Drew Crum - ***Stifel Nicolaus - Analyst***

So, Bryan, I wanted to ask about the fashion doll business and Disney Princess specifically. How are you guys viewing Frozen in the back half of the year? Once you lap this around the theatrical release from a year ago, do you see it as a tailwind still?

And do you think that the success of Frozen in any way is having any impact on Barbie and Monster High? And then the related question is where are you with respect to renewing the Disney Princess license? Thanks.

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Sure. Well, I love to talk about our doll portfolio because we have brands number one, two, three, four and five in the US and one, two, three, four, six in international, so we like that. Frozen is a huge success, we are thrilled to partner with Disney on that.

And as you can imagine, part of the success of this movie is the fact that the age segmentation is actually a little different. Usually a Disney Princess movie is kind of a younger girl in the three to five age range. Frozen has got broad appeal and the demographics of Frozen look a lot more like Barbie.

So as I look at the success of Frozen, is it having an impact on Monster High and Barbie? As we always say, it's very difficult to say. You can certainly imagine as popular as Frozen is that there are some Monster High girls and some Barbie girls who would want to play with Frozen dolls and we think that's great because we've got the portfolio for it. So that is difficult to say.

Frozen is continuing to grow. We are working very hard to literally chase demand on this. It gets greater and greater every week. So we're working very hard in Asia to produce what we need to satisfy the demand. But what I'd tell you is this is a portfolio.

And one of the things that happens with our doll portfolio, I'm sure like some of your own portfolios, is every year there is some brands that perform a little better than expected, some brands that perform a little less than expected. And as things continue to evolve with Frozen, we have other things in our portfolio that we feel good about.

Ever After High, we talked about that being a solid single. That's continuing to pick up momentum, particularly as we expand in new markets. When I talked about Barbie POS, it's not positive yet, but I can tell you that we're feeling pretty good about the momentum that we're seeing in Barbie and the improvements, and there is a lot of good stuff going on with Barbie for the fall. Again, we like this fashion design maker a lot.

American Girl, Girl of the Year is doing quite well. These two shop-in-shops and Indigo stores in Canada are doing quite well and piquing our interest on what else we could be doing in Canada. So this portfolio is always moving around. The key for us is to keep driving POS growth through the portfolio. We did that in the second quarter. We had solid high single-digit POS growth for the overall doll portfolio. So we like that a lot.

Kevin Farr - ***Mattel, Inc. - CFO***

And just following up on the Disney Frozen question. With regard to back-half comps, really when you look at last year it was only launched domestically. International was really Q1. We've been chasing demand, so we would expect that in the back half of the year we will have the benefit of the fact that the brand is hot, and it is global now.

With regard to your question on licensing on the Disney princesses. Licenses generally are short term, a few years. They come up every few years. And really we don't get into the details about renewals on licenses.

Drew Crum - ***Stifel Nicolaus - Analyst***

Okay, thanks, guys.

Operator

Gerrick Johnson, BMO Capital Markets.

Gerrick Johnson - ***BMO Capital Markets - Analyst***

I want to ask a little bit more about American Girl, up about I think it was $5 million in the quarter. How much of that is incremental from Canada? And then also American Girl has the biggest direct impact from the Easter shift with school vacations shifting into April.

So how should we look at American Girl if we adjust for that Easter, and what would that look like? Thank you.

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, I am not going to get into details on American Girl in terms of some of the things that you are asking about there. What I would tell you is that as it relates to Easter, American Girl is a lot like the rest of the Mattel business. If you adjust for Easter, POS is strong and we like where we are.

Canada is a success, but these are smallish shop-in-shops. So I don't want to get into the detail of how much that is. I would tell you, American Girl, the secret has been great product, great marketing, store expansion. And because of our success in Canada, as I said, we are evaluating are there other opportunities in Canada.

We have talked about international for a couple of years on American Girl, and it gives us I think some confidence that maybe we should get a little more serious about thinking about some other countries. Canada is a more natural first step, obviously, for language and cultural reasons. But we like where American Girl is and they have been a proven performer over the past few years.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, and again on a comp basis, I think year to date it is up mid-single digits. The Girl of the Year is very strong. We are re-launching the flagship historical dolls in the last half of the year. We also have two new stores coming. So we have got a lot of momentum and we have had a lot of momentum around American Girl over the last few years.

Gerrick Johnson - ***BMO Capital Markets - Analyst***

Okay, thanks. And, Kevin, and maybe some comments on payout ratio and the target there, what level you are comfortable with. I have a feeling this is going to be a topic I'm going to be fielding a few questions on over the course of the next couple days. So maybe you can help me out on that one. Thank you.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, I think we have had this long-standing capital investment framework. We ended 2013 with a strong balance sheet, and we were at the high end of our $1 billion in cash and 33% debt-to-total capital. We do, as you indicated, prioritize dividends as a key metric in delivering total TSRs of top third to top quartile.

Our payout ratio is between 50% to 60%, and we also target a dividend yield comparable with top quartile. And at this point in time our payout ratio, based upon last year's 6% dividend increase, was about 58%. So we still have room to grow there and we still -- this business, due to its portfolio of brands, its portfolio of markets and portfolio of customers, delivers strong and consistent cash flow.

And we have an opportunity to continue to deploy capital consistent with the capital investment framework. So far this year, we have also repurchased 3.3 million of shares for $128 million at an average price of $38.39, and we've also bought MEGA for $423 million [net of cash acquired].

Gerrick Johnson *- BMO Capital Markets - Analyst*

Great, thanks for those metrics, very helpful. Thank you, Kevin.

Operator

Sean McGowan, Needham & Company.

Sean McGowan *- Needham & Company - Analyst*

A couple of questions here. The Fisher-Price, Bryan, would you say that your performance is significantly below that of the overall category or do you think the whole category is seeing similar headwinds? And then I have a couple of quick ones on MEGA Brands.

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Sure, well, let me get started here, Sean. I would tell you that we're encouraged by some of the early progress we're seeing on Fisher-Price. And I know we've talked about this for a couple of years and all of us are disappointed that we haven't made more progress on it.

What gives me, I think, more confidence is what we're seeing in Baby Gear. We showed you some of the innovation in New York in February. That's been in the market. The market is responding. We have more innovation coming. We've always said on Fisher-Price if we can get the branding and the innovation right it works. And this is I think the broadest evidence that that works.

And so, our teams in both New York with Friends and in Buffalo with the core business are working very hard to try to bring more innovation on what's going on.

As I think about the category, the category is continuing to do okay in infant and preschool. We always get a question, gee, is there something going on with tablets? Tablets are not impacting Fisher-Price. The tablet business is actually down I think the last time I looked at NPD data. So it's not any new thing like that.

We need more innovation, we need to get the positioning out there. I mentioned the digital ads. I don't know if you've seen them, but they're very, very good and we're getting good response to it.

I'll also tell you in my comments I talked about international. International is still the number one growth opportunity for Fisher-Price. And with our new global brand team structure we're doing a lot more work in local markets like China, like in Eastern Europe, like in Brazil, for example, to really get the product lines right. And you see it on the core, you see it on Thomas.

Our Thomas business is good, the POS is up, a part of it is wood, a part of it is the better execution that we've talked about, for example, with content placement. And the other part is we've got what we call the emerging consumer line in places like China where we've really worked hard with local management to try to come up with the right combination of benefits and pricing to get the brands launched.

So, we're still optimistic. It's been a longer road than any of us would like, but I think we're making progress.

Sean McGowan *- Needham & Company - Analyst*

Thank you. And then a couple of quick things on MEGA Brands. First, should we assume that this is all the level of detail that we're going to get in terms of how -- the two main categories go.

And second, can you flush out a little bit more your comments on distribution agreements? So are you just assuming that you're not going to be shipping to the existing distributors because you know you'll be unwinding those agreements or have they decided they're not carrying the line anymore?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Well, let me start with the second part of your question and I'll have Kevin do the first. We've done enough of these acquisitions over time to understand what happens with the distributor network. They've done a terrific job for MEGA as they have with some of our other acquisitions.

It takes time to unwind these and get these businesses folded into the Mattel business system. Some things happen quickly, some things take a little longer than we'd like. But the whole push is to try to get these integrated as quickly as we can, because we know we have this fantastic global footprint with our international business and our US business. And the sooner we can get them in the sooner we can grow this business. You want to take the first part, Kevin?

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, and just to add to the distributor question, only 30% of their business is international. So we see this as a big opportunity. And we, as I said earlier, want to move through this as quickly as possible.

It's a case by case business, I think impacting sales it's more from a distributor perspective. They are concerned about being left with inventory. So as I said, it's a case-by-case activity and each of our local markets is working through it as quickly as we can.

With regard to reporting, we have added a new revenue line that details out Construction and Arts & Crafts. We'll be reporting that on a regular basis. And again, I think the opportunity is to grow this brand globally so you'll see that and be able to track that.

And then obviously you see the impact of the 100 basis points that we think in the future, excluding these fair market value adjustments, have on our gross margins. This is a great category with great profitability profile.

And as we look forward we expect that we should be able to improve our gross margins and operating margins on this business by applying our manufacturing capabilities and our global scale and procurement, as well as continuing to leverage Mattel's global infrastructure to drive a more profitable business.

And when we look at the profitability of this category, particularly Construction, we like the bottom-line profitability and we'd like to move MEGA more in line with that over time and make it a strong number two player in the Construction and a bigger player in Arts & Crafts.

Sean McGowan - ***Needham & Company - Analyst***

Okay, Kevin, but will you be sharing with us within that line how much Construction is up or down? You know, the way you do with some of the other brands within a bigger category but you call out an individual brand?

Kevin Farr - ***Mattel, Inc. - CFO***

Certainly from a revenue perspective. As far as the detail below revenues (multiple speakers).

Sean McGowan - ***Needham & Company - Analyst***

No, no, I mean like within that line that you -- you're putting it in one line, Construction and Arts & Crafts. Will you say construction was up X or down X? Or is it only going to be that one line?

Kevin Farr - ***Mattel, Inc. - CFO***

I think as dictated it depends upon what the results are. To the extent that it's material and that we think you need to know it, we'll disclose it. So I think we'll use our judgment. But again, I think we'll try to be pretty transparent on what's moving and that would include within the Construction category and the Arts & Crafts category.

Sean McGowan - ***Needham & Company - Analyst***

Okay, thank you.

Operator

Tim Conder, Wells Fargo Securities.

Tim Conder - ***Wells Fargo Securities - Analyst***

Let me start with a couple clarification questions. Kevin, you were talking about the inventories earlier. What are the total inventories here? You reported $885 million on the Company level. What are those ex-MEGA, I guess is the first question on clarity.

And then Bryan, the second clarity question would be, was second-quarter international POS down or was it up also? You said on a year-to-date basis international POS was up.

Kevin Farr - ***Mattel, Inc. - CFO***

Okay, let me cover the first one. I think what I've said is if you exclude MEGA we're essentially flat with last year. But if you do the math that's about $87 million of MEGA inventory that was added to our second-quarter results.

Tim Conder - ***Wells Fargo Securities - Analyst***

Okay.

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Regarding POS, what I said is that the US was down slightly and international was up. So we're feeling good about some of the momentum we've got in international.

Tim Conder - ***Wells Fargo Securities - Analyst***

During the second quarter specifically?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Yes. **[Correction: Mr. Stockton was referring to Q2 YTD POS]**

Tim Conder - ***Wells Fargo Securities - Analyst***

Okay, okay.

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

And recall also in international, Easter is not a big gift giving holiday. So there's less Easter impact in international than you would see, for example, in the US.

Tim Conder - ***Wells Fargo Securities - Analyst***

Okay. And then MEGA -- just to kind of continue on the prior question a little bit. Kevin, would you anticipate the gross and operating margins on MEGA approaching Mattel corporate here? Again, you had said over -- implying the way I would take it, 15%, 16% probably somewhere in that area, 16% area. But is that a fair directional way to go with it?

Kevin Farr - ***Mattel, Inc. - CFO***

Well, again, I don't think we're going to give guidance with regard to MEGA. I look at the category dynamics, and if you look at the Construction category dynamics of the leading player it's a quite profitable business.

We do see a great opportunity to grow MEGA's business and also improve their profitability. I think part of that is growing it and getting scale. I think second is putting our brands on their platform and getting the premiums from our brands to hit the gross margin line. We do intend to put more advertising behind it to create consumer demand.

And then this will basically be leveraging our existing scale. So therefore we think there's a big opportunity over time through innovation, our brands, global scale and continuing to work on the manufacturing efficiencies and automation with respect to their global manufacturing operations that there are plenty of opportunities to improve the profitability of MEGA.

Tim Conder - ***Wells Fargo Securities - Analyst***

Okay, and then lastly, Monster High. The rolling over -- is that faster than expected? And again, saturation, Frozen, the factors -- the comparables obviously are difficult. But any other factors that are maybe popping up that you had not anticipated?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, the way we think about Monster High is, it's still a very large brand, it's the second-largest brand in the fashion doll business, it's got broad appeal, it's got a lot of depth of engagement from a girl standpoint. We know that this is a brand that responds to innovation and stories. I think the monster maker is one of the most innovative products that we've seen in a while.

As I mentioned, there is a lot of competitive activity out there that might be impacting Monster High. I'll tell you we have our eye on it because, as you recall, in the fourth quarter last year POS on Monster High was strong double-digit. Softened a bit in the first quarter and POS performance this quarter kind of caught our attention. So we are paying a lot of attention to it.

But I'll also tell you that we're doing a lot of things to support Monster High. I've talked about some of the product, we've got more characters coming out, more content, I talked about the fall DVD. I also mentioned as part of our spending mix model work we are going to spend more on advertising and trade on Monster High in the back half as we are with Barbie and the rest of our doll portfolio because we know how important that is.

So I think the challenge for us is we've had a great ride on Monster High. We are thinking about how we shift this brand from what was a high-growth brand to an evergreen brand where it will still have growth but perhaps at lower levels.

So, we have our work cut out for us on this one, but I would just say we're being mindful about the current situation, keeping our eye on it. We're not jumping to any conclusions. But we're really trying to understand what's going on. And we should have the capabilities to do that again since we have brands number one, two, three, four and five in the US.

Tim Conder - ***Wells Fargo Securities - Analyst***

Okay, thank you, gentlemen.

Operator

Linda Bolton Weiser, B. Riley.

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

Sorry if you talked about this, but I was just curious if you had said if Frozen dolls are cannibalizing just your regular Disney Princess line at POS? And then was your Disney Princess sales up or down in the quarter?

And then secondly, just curious about Richard Dickson coming back to the Company. And I seem to recall that before, when he was instrumental in helping grow Barbie, that he had a more narrow focus in his management responsibilities where this time it seems like he has a much broader responsibility.

So I am just wondering, how quickly we can expect some of these key fashion doll brands to turn around. I know you don't want to give projections, but would we expect Barbie to start to grow again next year or are you getting any early reads from him that it might be a longer fix in terms of brand strategy? Thanks.

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Well, let me start with Disney Princess. It's always been a solid and important part of our portfolio. And as I mentioned in my comments, it's doing well, Frozen, is doing quite well. There's a lot of competition, and, as I said in our portfolio, because we have brands, one, two, three, four and five in the US and one, two, three, four, six in Europe, there's a lot of movement around. So it is very difficult to determine what the impact is.

Our job is to continue to grow the overall doll portfolio and keep it all pushing forward. So that's a hard one. But we're thrilled to have Frozen, we're thrilled to be a great partner with Disney and look forward to continuing that partnership.

As it relates to Richard, as I recall in a meeting with you back in February you were asking who that fellow was and would we ever consider bringing him back. And we listened to you, Linda, so he's back.

But, Richard was running Barbie at the time when he was with us a few years ago, did a terrific job. Went off to Jones, as you know, and did a terrific job there. We've always thought highly of Richard and were thrilled when he was interested in coming back.

And so, what his job is today is he's really trying to run the strategies for our Girls portfolio, our Boys portfolio and Fisher-Price. And so, you can imagine as a strong brand leader, Richard is looking across the entire portfolio. He also knows, as we all do, that the Girls portfolio is one of our most important portfolios. He's taking a look at that.

So, I'm not going to give any crystal ball looks into what Richard's thinking. But I can tell you he's engaged. He's been here I think about three weeks. Tim is fully engaged in international now, which I think is terrific. So we can get a stronger bridge between the brands and the countries. So I think in terms of leadership this is a really great leadership team that's going to drive innovation and more growth.

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

Okay, thanks a lot.

Operator

Eric Handler, MKM Partners.

Eric Handler *- MKM Partners - Analyst*

Two quick questions for you. First, when you look at the Fisher-Price business, particularly Friends, a year ago Thomas was doing really well and you say Thomas continues to do very well. Licenses were very strong, you had added Jake and the Neverland Pirates and I think there were a couple other licenses that you added, Mike the Knight -- well, Mike the Knight is not a license.

But you had some other licenses I think that were quite doing well. And now we're seeing very weak, well, ship in I guess for the Friends business. Can you talk about some of the dynamics going on within the Friends business?

And then secondly, you talked about a number of categories are showing improvement in POS. Can you talk -- can you sort of help us reconcile that with some of the NPD data? And are you keeping in line with NPD in most of those categories?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Sure, let me start with Friends, Eric. Our Friends portfolio is something we're quite proud of. As you recall, we have a lot a very strong brands in that portfolio and a couple of years ago there was a lot of new launches from Disney, for example, some new BBC properties. And so, we benefited from the launch of those and now we're competing against some pretty stiff comps against that. So that's a challenge that we're always going up against.

Offsetting that would be we've got the launch of Dora & Friends: Into the City. Dora is a really important part of the Nickelodeon portfolio. And this is we think great. Nickelodeon is going to put a lot of emphasis behind it. It's Dora and Friends, and since we're pretty good in the doll business anytime there's a star like Dora or Barbie and there's friends involved that's always good for business. So we think that is good.

Julius Jr. is something else that's been a great show on Nick, and we're going to be launching that in the fall. So that's a portfolio that has some ebbs and flows to it driven a lot by the quality of the entertainment. So we think we've got a couple of interesting properties in the fall.

As it relates to POS, we look at POS in a number of ways. We look at POS in terms of dollars, we look at POS in terms of units. And what I would tell you is that both measures are important. We're seeing progress and I think what's encouraging to us is that when we look at our POS relative to shipments, POS is outpacing shipments, we like that a lot. That I think reflects a lot of the hard work we've put into clearing out inventories at retail.

And the key to this for us is to make sure that when the stores convert to fall, both in the USA and international, we've got clean inventory, the shelves are filled with all the great products we've got planned for the second half. So we like where we are in POS and we're looking forward to the fall.

Eric Handler - ***MKM Partners - Analyst***

Okay, thank you.

Operator

Mike Swartz, SunTrust.

Mike Swartz - ***SunTrust Robinson Humphrey - Analyst***

Just wanted to touch on gross margin and some of the commentary around -- understanding you don't give annual guidance, but your expectations of low- to mid-50% gross margin. Can you just clarify I guess what your expectations in the near-term is in terms of product mix?

Kevin Farr - ***Mattel, Inc. - CFO***

Well, again, I think with regard to product mix I told you about the [revenue] tailwinds which are Frozen and Ever After High and American Girl. And I think we've got headwinds with regard to the Barbie, which has been getting a little bit better from a POS perspective.

And then Monster High, we've seen that go from a tailwind in 2013 to what's looking like in the second quarter a headwind, which could impact our sales and our margins in the second half.

But as Bryan said, we're working very hard in putting our effort behind Monster High. We intend to advertise more. We've got an innovative product line for the back half of the year. And we're working very hard to turn this brand into an evergreen brand. And we still have a lot of consumer engagement around it and a lot of great things happening at retail this fall with regard to Monster High.

Mike Swartz - ***SunTrust Robinson Humphrey - Analyst***

Okay, but is it fair to say that we shouldn't see wholesale trailing POS by as wide of a gap in the back half of the year?

Kevin Farr *- Mattel, Inc. - CFO*

Again, we're not going to give you guidance on what we think is going to happen with POS in the second half of the year.

Mike Swartz *- SunTrust Robinson Humphrey - Analyst*

Okay, fair enough. And then just with kind of broader general question just in terms of how retailers are looking at I guess the holidays, and understanding we're still in July. But as they get ready to reset their shelves in about a month or so, are they are locating more, less space to the just broader toy category overall?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Well, I would say that retailers still know that toys are an important part of the holiday mix to attract customers into the store. We think that's important. As I think about our broad global customer base I haven't heard of anybody doing some significant cut in space for toys.

I think what's also important as a real shift is what's going on with online. Because there's a lot fewer constraints in terms of SKUs carried and inventories and things like that online. So we're working very hard -- recall last year on average about 15% of toy sales were online. You might expect that's likely to grow this year.

So I think we're well-positioned as an industry, the industry is growing. I think Mattel's well-positioned with the initiatives that we have in place. And we're looking forward to partnering with all of our retailers around the world to deliver a solid 2014 and get ourselves ready for an even better 2015.

Kevin Farr *- Mattel, Inc. - CFO*

Yes, so brick-and-mortar, I think overall we think there's not any change in shelf space. I do think if you look at year-to-date results for the toy industry it's holding up pretty well, it's actually up low-single-digits.

So from that perspective we don't see a change or headwinds there. We do see opportunities in the online area as both brick-and-mortar retailers and obviously pure eRetailers emphasize toys and the trend has been that's been a growing trend, as Bryan has said.

Mike Swartz *- SunTrust Robinson Humphrey - Analyst*

Okay, great. Thanks for the color.

Drew Vollero *- Mattel, Inc. - SVP Corp. Strategy & IR*

Operator, we have time for one more question.

Operator

Jaime Katz, Morningstar.

Jaime Katz *- Morningstar - Analyst*

I know you guys talked a little bit about how international is still really important, but can you talk about maybe what areas underperformed and how you feel you can better connect with those geographies going forward?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

I would say I think we feel pretty well connected in international. International is facing the same kind of challenges that we talked about in the US -- pockets of inventory that we had to work through, Monster High slowing down a little bit. So I think that's kind of broadly where we are in international.

What I would tell you is that our goal there is to get prepared for the all-important holiday season in the second half of the year. They're working very hard to do that as they always do. So we're keen on international.

If you think about it the demographics favor more international growth. There are more customers growing in international. POS remains positive in international last year and this year. So we feel very good about it. We still like the big countries in Western Europe like France and the UK, Germany, Italy, Spain, for example, those are important.

But we're also investing quite heavily in the future of international, which is Russia and China. We were very successful in both markets last year. I mentioned I think in an earlier answer that our global brand teams are spending time in these markets to make sure that we get the right product in these markets at the right price and the right play value. And culturally positioned well so that we can have more successes like the Soothe & Sleep Seahorse in China. So we're still very bullish on international and are pleased with our performance so far.

Jaime Katz - ***Morningstar - Analyst***

Okay, and then lastly. Did you guys offer any color on your sort of initial reaction for BOOMco or do you have any insight to that?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, as I mentioned earlier, it's early in BOOMco. I think we've been on shelf in the US maybe two weekends, I think this is weekend three coming up. It's been in France, Belgium and the UK for probably five, six weeks. So it's way early. We like and appreciate the retail support that we're getting on the launch, that's terrific.

If you go online and look at some of the product reviews that are out there from all sorts of folks, the product reviews are we think pretty positive and I think reflect the differentiation that we have in this category. And we think that's important. So it's too early and we'll, I'm sure, update you more at the end of the third quarter.

Jaime Katz - ***Morningstar - Analyst***

Thank you.

Drew Vollero - ***Mattel, Inc. - SVP Corp. Strategy & IR***

Thank you. There will be a replay of this call available beginning at 11:30 AM Eastern Time today. The number to call for the replay is area code 404-537-3406 and the pass code is 61224509. Thank you for your participation in today's call.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect. And have a wonderful day.

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