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MAT - Mattel Inc Toy Fair Q&A Session With Securities Analysts

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q&A session with securities analyst call.

(Operator Instructions)

As a reminder, today's conference call is being recorded. I would you now like to turn the conference over to Mr. David Zbojniewicz. Please go ahead.

David Zbojniewicz - Mattel - IR

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

As you know, Mattel has already reported its 2015 fourth-quarter and fiscal year-end financial results and has also hosted a strategic presentation at our New York Toy Fair gallery last week. Today's call will be a question-and-answer session with many of Mattel's sell-side analysts. We will begin today's call with a brief statement from Chris and I will then begin to take questions.

Before we begin, I'd like to remind you that certain statements made during the call may include forward-looking statements related to the future performance of our overall business, brands and product lines. These statements are based on currently available information. They are subject to a number of significant risks and



FEBRUARY 16, 2016 / 01:30PM GMT, MAT - Mattel Inc Toy Fair Q&A Session With Securities Analysts

uncertainties that could cause our actual results to differ from those projected in the forward-looking statements. We describe some of these uncertainties in the risk factors section of our 2014 annual report on form 10-K, our 2015 quarterly reports on form 10-Q, and other filings we make with the SEC from time to time, as well as in our 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 Chris.

Chris Sinclair - Mattel - Chairman & CEO

Thanks, Dave. Welcome everyone. Delighted to be with you today. Hopefully most of you had a chance to see the presentations on Friday. I'm going to make that assumption, I think broadly. But we thought this would be a fairly efficient way to take your questions, and we have plenty of time so we can go about as deep as you want to go.

Just a few themes that I want to remind you of from our call. First, we feel very good about the fact we were able to stabilize the business in 2015. As you know, a fairly tough set of circumstances that we had to maneuver through. But on balance, came out of the year I think very good and executing extremely well in the fourth quarter.

I would say we also made a lot of good progress on our strategic priorities and I think this covered from the top line and what we were doing with our core brands, our emerging market focus, and importantly our execution in the commercial group. We also felt we did a lot of good work on the cost front which helped us get through the year I think with pretty good performance.

Now, clearly as we've stated, this is one more year that we have to transit, where we still have a fair amount of headwinds to maneuver through. Disney Princess you're all aware of, is a fairly big (inaudible). Monster High continues to show some leakage, so we need to stem that. And foreign exchange, not quite sure where this is going to end for the year, but certainly still off to a fairly tough start.

All of those things are in front of us. We do feel though that executing well against our priorities should get us through 2016, as I said, with a relatively stable top line and we expect to make good progress on the cost front as we get through this year as well.

The nice thing is, as we look at the trajectory going forward, we think we're set up well in 2017. Certainly we have some licensed properties coming in that should have a major impact. I think if we continue the trends on our core brands and some of our Toy Box initiatives and the cost front, we're looking at a back to more normative things for 2017 and beyond.

On balance, we're feeling a lot better than we did a year ago at this point. Don't want to be too confident. We still have a lot to get through this year. But I think we have a sight line now to get things really tracking and I feel pretty good about where we are and our execution and priorities.

So with that as a set-up, happy to take any questions that you may want to give us.

QUESTION AND ANSWER

David Zbojniewicz - Mattel - IR

Excellent, our first question will come from Lee Girodano from Sterne Agee.

Lee Giordano - Sterne Agee CRT - Analyst

Maybe we could start talking a little about Barbie, the lineup looked really good at Toy Fair. Have you received any early feedback from your retail partners or consumers at the Toy Fair about the expanded product line? And also have you been able to secure any additional shelf space to help showcase the expanded line as well? Thanks.

Chris Sinclair - Mattel - Chairman & CEO

I'll let Richard take that. But he actually has briefed me on some feedback, which is great.



Richard Dickson - Mattel - President & COO

We were just talking chatting about a variety of different things from Toy Fair. Barbie was really terrific, without being overly optimistic. We're walking away from Toy Fair incredibly confident about the progress that we made.

We've gotten great feedback from retailers, not only in the context of execution improvement across all of our brands, but particularly in Barbie, creatively as you know we've talked about all the refresh that we've done. Every moving part of the brand has undergone some form of refresh. All the creative, commercial, a lot of product adjustments in 2015.

And probably most importantly, the pop culture conversation that Barbie can create, which if you drive the right narrative, as you all see, really creates goodwill for the brand and the type of conversations that we want people to have around the brand, which was very different than a year ago. So all in all, I'd say we are really encouraged by the feedback that we're getting from retailers, particularly on the new Fashionista line.

As you recall, we introduced diversity in the spring of 2015. To some extent that was a toe in the water to really make sure that what we were trying to do was connecting both with mom, little girls, conversation in the world, encouraging us to move forward with adjustment and/or introduction of the new body. Which essentially is really about giving girls more choices in the context of how they shop and play with fashion dolls.

It's not that we are eliminating what we call the original. We're actually just expanding the breadth and depth. So retailers were incredibly excited. Started to talk about which ones they thought were going to be the big ones and ultimately started to talk even more about new methodologies of execution through merchandising, shop concepts, really all the right conversations that we were really thrilled to have around Barbie. Feeling good.

Chris Sinclair - Mattel - Chairman & CEO

Want to talk about space also.

Richard Dickson - Mattel - President & COO

Spring, we're still in the challenging phase, as you know. (Inaudible). Productivity for the brand has been terrific based on our POS results which ultimately gives us the right negotiation power to go into these conversations and negotiate for more space.

At this point we are seeing encouraging signs without the exact numbers and commitments that I would share with you. We're very confident that the space will continue to grow for Barbie. And as I said, in some cases I think there's going to be some surprising new merchandising executions with some of our partners to present the brand in a more full, in-depth way.

David Zbojniewicz - Mattel - IR

Great. Our next question will be from David Pang from.

David Pang Analyst

Can you talk about Monster High, how you're going to define success for 2016 and what are some of the key metrics to determine whether or not you're going to continue to support the brand going forward?

Richard Dickson - Mattel - President & COO

So Monster High. As I said, when you take a step back and you look at frankly fashion dolls and the category itself and history, which to some extent we're the authors of the history and we're the study of it incessantly.



Monster High has been around for six years. At six years, to do that kind of volume and command that kind of attention with consumers, gives us the encouragement and frankly facts based on fashion doll history that this brand is moving into an evergreen status. We, as you know, spent a lot of time in 2015 studying the brand, studying consumers, trying to discover the right methodology to revitalize the brand. We tried a variety of new shapes, scales, form factors, if you recall, I shared with you some of those exciting entries.

The good news is that what we did in 2015 did work. Now, it wasn't big enough to fight the headwinds that we were inherited by previous years of inventory. The methodology behind Monster High was about collectability. We had way too many characters. The assumption was collectability would be infinite. It wasn't.

Girls really resonating with core characters within the story that we told. And so what we've done to reshape the line is, you'll see moving forward in 2016, is we've eliminated I think it's about 57 characters, which is fashion doll collectability, which was unreasonable. We're focusing on the 12 main characters. We've re-engineered our content to essentially reboot the origin story, which we know works with girls.

We've tested and redone new animation with a little bit more of a friendly, if you will, feel to it versus what girls and moms were starting to tell us, Monster High was getting a little bit dark. So we've dialed up a little bit more humor, we've dialed up a little bit more friendly aesthetic which we've tested to some great results.

In addition to that, we've started to integrate Monster High similar to the Barbie methodology into pop culture, studying the landscape of who could we partner with in various different ways that would bring a little more relevance to Monster High. As you know we announced a partnership with Lady Gaga, the Born This Way Foundation and it's going to be a series of announcements regarding we are partnering with, with Lady Gaga, both on product and a variety of other, what we'll call communication aspects to the brand. So we think that we've got the right plan in place to stabilize. And stabilize essentially is a means to sort of curve the obviously negative trend into what we hope will be very flat, single-digit down.

We're starting to see some great results on new products. The DVD that's recently launched and the product associated with it is doing very well. In fact, we had a couple of retailers who have positive POS for the first time in a long time. So coming off of Toy Fair, actually just to extend the conversation to Monster High, we've got some great retailer feedback and encouraging signs that we still have a lot of belief out there. And most importantly I'd say the research says girls love the brand, and that's when you know we just have to get our programming right because the sentiment is there for us to continue to grow.

David Zbojniewicz - Mattel - IR

Great. Our next question will be from Jaime Katz from Morningstar.

Jaime Katz - Morningstar - Analyst

Thanks. So my question is a little bit more directed to (technical difficulty). Emerging markets being so important, and the recent publicity surrounding and possibly the ability to sort of carve out a number of births over the next few years. Is there anything we can look at as a proxy for that in the past, and is there a way to somehow work around that? I guess eventually the US becomes a much bigger problem for the current cycle and then for toy sales through the demographic.

Chris Sinclair - Mattel - Chairman & CEO

If I got the question right, Jaime, you're asking about the birth rates and the projection going forward, and so forth, right?

Jaime Katz - Morningstar - Analyst

Yes.

Chris Sinclair - Mattel - Chairman & CEO

Did you imply the two child policy in China as part of your question, or was that an add on?

Jaime Katz - Morningstar - Analyst



No, I'm just thinking more about what happens if the CDC comes out and says maybe nobody should be having kids for the next year or two like they're doing in Brazil, which is a big emerging market for you. Is there any sort of cycle that you guys have been through before like this where?

Chris Sinclair - Mattel - Chairman & CEO

I spent a lot of years in the consumer game. Not specifically on that question. I think to the contrary, right now birth rates are still looking up in most emerging markets.

India is exploding, as you know. China I think with their new child, two child policy will probably go more in the upper trajectory as opposed to not. From an emerging market standpoint I think all pushing up arrow direction and I think what we've seen in Europe and North America, sort of the developed world is relative stability. But I think we're dealing with that in the environment we're in.

There is a little bit of an echo boom going on which is helping right now, and I think that will continue for a little bit of time still. Importantly, I think there's a lot of trends with today's younger families that actually bode well for us, particularly in the child development and learning arena, where I think we're doing a lot of things we've indicated to take advantage of that. Certainly. I think there's some things to upgrade our line and make it more appealing.

But if you stay with where we are on Fisher-Price, Hot Wheels and some of those products for child development, I think we're extremely well-positioned and I think we can bring some of this new technology to bear that's going to actually makes those lines a lot more effective and attractive. And we're seeing it right now. In China we're getting huge interest from some of the big Internet folks who want to partner with us, kind of make this sort of an anchor of their own child development efforts. So I think the demographics today actually feel good, not something we're worried about.

David Zbojniewicz - Mattel - IR

Our next question will be from Taposh Bari from Goldman Sachs.

Taposh Bari - Goldman Sachs - Analyst

Good morning. I wanted to ask you kind of a conceptual question about the idea of evergreen properties versus media-driven properties. So it feels to me looking at the data that media driven properties are gaining share at the expense of evergreen properties. Your business historically has been evergreen in nature.

At a high level do you believe this is a moment in time where things like Star Wars and Frozen are just kind of anomalies, or do you think that something's fundamentally changed and if that's the case how do you manage your brands, some of these evergreen brands going forward?

Chris Sinclair - Mattel - Chairman & CEO

Let me start that. I'm going to have Richard jump in too. Look, our conclusion is that sort of the big content driven brands have been driving a lot of growth. Don't forget, there's a lot of growth underneath in some of the more innovative products out there. But we do think excellent content is with us to stay. We think it is a way of doing business.

I think we've been pretty honest to say we were slow off the mark, both on the license front and getting some of the big theatricals in our side of the equation. Also on our own brand development, we didn't do enough to exploit our franchises with great content. We're making great progress on both strategies, which actually gives us pretty nice balance, to be honest with you. I think with big theatricals coming out with some of the properties that we've got teed up we're making a lot of progress on our core brands, on getting some good content developed that I think will have a lot more impact.

So it may be a little bit of a tipping point, Taposh, but I think we see it. I think we're positioned well for it. I think we'll get better in this environment, to be honest with you.

Richard Dickson - Mattel - President & COO



I'll add what I can add, because I think that's the answer to the question. But I think when you think certainly about the history of our category and certainly our demographic, clearly content is driving awareness which ultimately drives purchase behavior across multiple categories in consumer products. I think as we've seen digital rise and the ability for content to be so accessible, we certainly see products related to content continue to increase.

What I would say, though, however, is these big story telling initiatives, let's call theatrical, the sort of north star of the big event, drives an enormous amount of awareness and a lot of good buzz and connectivity for a period of time. And then that period of time moves on to potentially a base business, call it evergreen, and then the new story comes and takes its place.

What I would say is in our portfolio one of the unique parts, and I believe probably one of the biggest competitive differences of a couple of our core brands, let's take Barbie, for instance, and Hot Wheels, these are open-ended play brands. So while Barbie is a character, the idea of Barbie is that she's actually open-ended. So we have endless amounts of stories that we can tell, obviously the campaign around be anything introduces the idea of all these different characters.

Hot Wheels is about vehicle play. It's more of an attribute driven brand. The play value and the character is yourself, enjoying the fantasy of whatever that may be.

These concepts in open platform play actually give us much more opportunity to tell great stories and to have an everyday business. And so how we manage and narrate those brands are not necessarily only character based and, therefore, have more opportunity to have a full year business and a continued base growing business based on the content, digital, game, pop culture conversation and as we've introduced in Hot Wheels, licensing and the interpretation of all of those licensing properties within our category.

We can take advantage of Star Wars when Star Wars is hot within our core brand and yet still have a basic diecast Hot Wheels branded business. In Barbie as well, we can do licensing in various other characters associated with it, always still have the basic fashion doll Barbie business.

I actually think we're one plus one equals three because we get to take advantage of those big theatrical, big pop culture events and drive our category. At the same time we have these character opportunities within our core brand which are open play that give us incremental opportunity based on what those can be. Probably a little bit more of an elaborate answer to your question but ultimately --

David Zbojniewicz - Mattel - IR

Our next question will be from Gerrick Johnson from BMO.

Gerrick Johnson - BMO Capital Markets - Analyst

Can you talk about some of your early successes from Toy Box and if it is supposed to help speed to market and create development, creative development for smaller brands, why can't the entire organization be run the same way?

Richard Dickson - Mattel - President & COO

That's a great question. First off, I would say that we're really pleased with what's going on in Toy Box. The purpose of the reorganization was to identify a group of people who would be able to bring speed to market as part of their mantra, prove in fact that we could bring innovation and innovative products not only in new brands but also infuse innovation in existing brands, as well. And probably most importantly to re-engage our strategic partnerships and organize within Mattel to have a group of people that are dedicated solely to the licensing business and our strategic partnerships, not only in entertainment but beyond.

Previously as you know, we were organized in a way that it wasn't one stop shopping for our licensing partners. It was difficult to navigate the opportunities within Mattel. So by organizing around our strategic partner's interest, infusing the idea of innovation and empowering them to do things to bring speed to market, we have set ourselves up for what ultimately is an exciting next chapter for toys within Mattel. The results speak for themselves, frankly.

We brought brands like View-Master, which was a dormant brand within our portfolio, back to life with great fanfare and success. We infused real innovation from a technology perspective into Barbie with the first connected fashion doll certainly getting a huge amount of press and a lot of great interest from the world on Barbie, and a variety of other ways that we're going to be expressing leading technology into both core brands and also introducing new brands.



The other piece of Toy Box that I would say is really important to take a look at is the licensing relationships. Renewed partnerships that we have spent a great deal of time, both Chris and I, of navigating. [The top to top] relationships but also the organization within the Toy Box, driving renewed interest with our partners. I think the best results speak for themselves as far as Cars, with Disney.

I understand and I've heard some whispers and feedback, well, we knew that was going to happen. I can tell you we certainly did not take that for granted. You probably would have said the same thing about Disney Princess. So we do not take anything for granted today and in fact really encouraged around how we worked with Disney to get that renewal and certainly we are already building our program to have the best Cars event ever.

Toy Story also renewed which is another great sign of renewed partnership and interest with Disney. There's been a lot of great work with Warner Brothers, as you know. We've got a huge lineup of boys and girls new properties coming from Warner Brothers. I'd give even Dreamworks there, Dinotrux is actually a very collaborative brand that we worked with Dreamworks on to really see what we can get out of that. I think it's going to do terrific.

There's a lot of other great work that we're going to be revealing very soon that's coming out of Toy Box. Certainly extending strategic partnerships beyond the traditional entertainment with people like Microsoft and Minecraft, and that continues to be a really great business for us and there's going to be a lot of other I would say relationships in that community that translate to our category. So, look, I think all in all we are on track, in some cases a little bit ahead of the game, as to where we expected.

And my last point to your question is why can't that be infused in the rest of the Company. The answer is, it is. And we continue to promote the idea of the attributes that we set up Toy Box on, speed to market, invention, entrepreneurial adventures and strategic partnerships infused in everything that we do, and it is fast becoming the norm, not the exception. But in order to get it going, it needed that fast pass. We needed to set up an organization that could prove to the rest of the organization that we can do it. So those exceptions are fast becoming the norm and I would anticipate continued improvement going forward.

Chris Sinclair - Mattel - Chairman & CEO

Let me just add, Gerrick. You were poking in there at the speed to market, which Richard touched on which demonstrated we could do it with a few items. We've actually put a team on this with sort of the lead design and development person in charge of it to look at all of our products and how we get them to market faster. We call it the bullet train.

We do a lot of things sort of the historic way we do things, which is complex, a lot of new development steps and so forth, that I think over the next couple of years you'll see us make huge progress on speed to market broadly and that has implications in a lot of areas, but importantly some huge cost implications and some inventory implications. So we see it as a big opportunity. I think we've demonstrated we can do it. Now we have to make it more systemic which is what we're about.

Richard Dickson - Mattel - President & COO

If I could add one more thing, as I think through some of the other examples of Toy Box. Those of you that have walked the gallery, I don't know if you got a chance to see the Thingmaker, which is a really breakthrough product in a category that obviously has gotten a lot of buzz in the price point that we're offering, and the aesthetic and design is bar none a breakthrough pioneering item.

It's also, again, just to take another minute, another example of taking our history of breakthrough products through time, View-Master being one of them. Thingmaker was a product at Mattel, was a classic brand and toy way back when and, again, kind of reinvented for today.

It really is another example of new ways that the organization is getting inspired to take our history, reinterpret it through technology and new innovation and bring it to market today. If you haven't seen it, it's a great toy. Not even a toy, it's a real craft item.

David Zbojniewicz - Mattel - IR

Our next question will be from Tyler Seidman from MKM.

Tyler Seidman - MKM Partners - Analyst



You mentioned that one of your strategies is to take advantage of big theatrical hits. Recently China has been very popular with animated films and the whole movie industry. I'm wondering how talks have been with retailers there and any color you can kind of shed on that with the upcoming Cars 3 movie.

Chris Sinclair - Mattel - Chairman & CEO

I'll let Richard touch on Thomas in a minute. I think he mentioned it in our remarks on Friday. But it's extremely rare for a multinational foreign firm to get approval to do a theatrical release in China, which we worked hard at, built great relations and we're going to be featuring that in this coming year.

More importantly, we're working with some of the real big players right now in China and have some very active projects under way across as I said Fisher-Price, Hot Wheels, in particular, working on content development through them, delivery of content through their networks and so forth, which I think we'll have more to talk about over the course of the balance of this year. But in a market like China, that's the way the game's being played.

E-commerce, Internet has sort of become the way to get to market now. And they're all looking for content plays. They're looking for plays that sort of support the notion of child development, because that's how they get stickiness with their audience. And I think we've worked pretty hard over the last 12, 18 months to build up some of those relationships that are starting to bear fruit. I think we're pretty well-positioned there.

Tyler Seidman - MKM Partners - Analyst

Thank you.

David Zbojniewicz - Mattel - IR

Our next question will be from Tim Conder from Wells Fargo.

Tim Conder - Wells Fargo Securities, LLC - Analyst

Thanks. Fisher-Price, saw some great products. North America on Friday. And just touched on Fisher-Price as a lead in the emerging markets, especially China.

There wasn't a lot of product shown on Friday for the developing emerging markets. Maybe expand on that. And tell us some particulars, sounded like from your presentation on Friday that that's one area you had inventories yet to be shipped a lot in the fourth quarter, so that within Fisher-Price I guess and emerging markets, broad question.

Richard Dickson - Mattel - President & COO

Broadly speaking, in particular our focus in emerging markets is primarily Fisher-Price. We believe that actually is the big brand opportunity across the board. It has all of the right ingredients from the child development, learning, play, cognitive, social, emotional development, have all the ingredients if you will for us to create real product and communication that will make a difference. And really, based on our insights within those markets, particularly in China, we know that our brand represents child development. We know it represents quality. We know it represents legacy. So we're pretty excited around the opportunities for the long-term aspects and growth of Fisher-Price as a child development company.

As it relates to product, we are working on introducing, and in some cases, in some brands have developed very specific tailored product for emerging markets. Whether that be specifically designing or redesigning existing product with less features or more price sensitive aspects to it, or actually developing products specifically for that market based on insights and/or feedback. Those are not necessarily products that we present here at Toy Fair.

We have a various -- a lot of various different meetings that take place with specific markets in Hong Kong, if you will, at Toy Fair we present some of those products. But I can assure you there is a tremendous amount of development work, insight work, marketing communication work, to start to launch both communications and specific product in those markets to explore the opportunity. But we're very excited about what it can represent, and specifically Fisher-Price is going to be the anchor of that strategy.



Kevin Farr - Mattel - CFO

I think in Brazil and Mexico that's already played out for us. We have a leading share in working with cultures and moms and we've been very successful there with regard to our shares.

Chris Sinclair - Mattel - Chairman & CEO

Just pick up on that a little bit more. Some of our growth in the last 12, 18 months in a place like China has been through these specialty products Richard talked about. Designed to be entry price points that make it easy for consumers that are maybe less complex features on Fisher-Price that gets you price points that are appropriate and so forth.

The bigger idea though, from our standpoint, is to sort of drive the whole platform of child development with new technology and connected toys. We call it -- I don't know if I can say this, Dave, but the nursery of the future, which we've been actively working on. We have a separate development team that is actually taking this on, integrating some of the new technology platforms that we've acquired with Fuhu and Sproutling and so forth. Actively working primarily on Fisher-Price to sort of get a network of products ready for later this year. That will integrate obviously with Fisher-Price, but it's kind of running a parallel track.

The idea of speed to market and appropriateness for the emerging markets is a starting point. Frankly, what we're learning is that some of the product development actually will have great application here in the developed world. So we take it -- we think this is exactly what you need to do and you need to have team that not only can develop product but develop content and marketing and so forth on an emerging market basis. We're starting up the same process in India at this point, so a huge area of opportunity.

Thomas fits into that universe of Fisher-Price and early child development. It's a great product in China right now. It's probably one of our top three. We're pushing hard on it.

It seems to get a lot of traction, the story telling has resonance. It certainly plays to sort of the right values for early child development. And part of the reason we've seen some of the inventory buildup, frankly, was just the momentum we've had in places like Asia.

David Zbojnowicz - Mattel - IR

Our next question is from Stephanie Wissink from Piper Jaffrey.

Stephanie Wissink - Piper Jaffray & Company - Analyst

Thanks. My question is regarding Barbie as a follow-up. Can you talk a little about the complexity of the line from a cost standpoint. You're moving from a standard model and packaging to a more complex multi-choice model. Richard, if you could talk a little about the merchandising investments you're going to make at retail to help the consumer navigate that increased choice count?

Richard Dickson - Mattel - President & COO

Sure. While we're introducing through Barbie a variety of new scales and fashions that fit those scales, you have to realize and certainly as you do recognize, we have a lot of dolls in our portfolio and a lot of different sizes and a lot of different shapes and a lot of different scales. So actually within our world from a manufacturing perspective, we have all of these (inaudible), tools and various different ways to extend brands within our portfolio and leverage, if you will, the tools that we have.

In some cases there will be some obviously continued fashions that are created to fit these new dolls. When you look at the business itself, while fashion play is incredibly important, the actual size of the fashion piece is very small. So I think in the context of it all, what could be perceived as a major change or development investment is actually not the case.

On the merchandising front, frankly many of the things that you're seeing now are adjustments from a creative perspective that are making the brand look more at retail without actually spending a lot more. We had a very fragmented message. If you really watch the brand at retail we're telling a lot of different stories around the brand



and, therefore, the impact of the brand from a merchandising perspective wasn't as great as when you have consistent stories and consistent creatives. And so when you put consistency around a brand's real estate, no matter where it is, it has much more impact than when you fragment the brand's messaging.

So what we've done a good job of in 2015, frankly, is kind of redirect our creative so that where we are present, much more impactful with consistent view. As we move forward and command more space, negotiate for more opportunity outside of the aisle, as we look to negotiate bigger concept shops and/or shop presence, we will allocate and invest accordingly. And we will balance if you will within our portfolio, where that investment comes from to support. So I would anticipate and hope, actually, that we have some great new merchandising opportunities to expand upon.

David Zbojniewicz - Mattel - IR

Great. Our next question is from Ed Wendell from Barclays.

Ed Wendell - Barclays Capital - Analyst

You guys sounded very confident on your earnings call and Investor Day last week that you closed the revenue gap left by Disney Princess and Frozen. Some investors we spoke with are concerned you're not being conservative enough. Would you please discuss what's driving this confidence, especially since the toy year really doesn't formulate until the last months of the year, and what kind of cushion have you built into this forecast?

Chris Sinclair - Mattel - Chairman & CEO

I'm going to let Mr. Confidence take us through that.

Richard Dickson - Mattel - President & COO

I think, judging from how we left off the holiday season and sort of seeing a lot of the work that we put in in 2015 come to fruition, at the end where clearly in our business the end counts the most, we were pretty pleased with the results and encouraging us to continue down the path that we've recognized works. Better execution, the right pricing strategies, renewed creative, new demand creation models, all the things that we did more work than didn't work. So we are expanding on those aggressively for 2016.

In addition to which we have renewed, as we talked about, top to top relationships with our retailers. We're on the forefront of understanding what's happening with the business again. We're on the forefront of understanding what's happening with our brands and what adjustments do we need to make, not on a seasonal basis, on a daily basis, to make sure that we're supporting what they need but ultimately driving our business inventories, sales, promotions going forward.

When you look at the lineup, and I know you are all modeling here are the new things, here are the core brands and here's the total. Some of you are seeing the optimistic approach that we're taking and then there's others that are a bit more conservative. Our core brand momentum is real. Barbie is continuing to put scores on the board. We anticipate, based on where we are and the programs ahead and, frankly, the competitive landscape in 2016 for girls, allows us the ability to continue to keep that momentum.

Now, that will only get us so far. But when we add also Fisher-Price and its momentum and its turn and some of the new items and new programs that we have coming for Fisher-Price, we believe that that business will also continue to deliver growth for us. Now, if you just stick on the path of the growth strategy, we've got some momentum.

Warner Brothers, again, has both boy and girl properties that are both new to the consumer and to Mattel. Batman versus Superman is already trending very, very well and nicely. Our action figure business is up and retailers are pretty excited about the product that we've created.

Superhero Girls as it's been now shared with the world at Toy Fair is getting even more excitement than just previously just talking about it. I think now that people see the product, see the content and start to hear about it, they're getting more excited and we've got a good number associated with that piece of the business as well.

The other pieces of the business, while they're not silver bullets, there's a lot under the covers that people need to take a look at. Nickelodeon is a great partner of ours. Blaze and the Monster machine is actually a great property. It's going to be instrumental for 2016 for most of the year and continues to grow.



Within that also we've got the launch of Shimmer and Shine with Nickelodeon which is a big effort that they're putting behind girls and we are their partner in a variety of different ways on Shimmer and Shine, and we expect that to be a pretty powerful brand. Dinotrux is getting great results and again, a real collaborative effort with Dreamworks, and great retail confidence as it relates to Dinotrux.

In the scheme of things, I think we've got some good, solid, new brands coming. We've got some momentum on core, particularly with Barbie and Fisher-Price. And last, but not least, I'd say emerging markets, as we continue to drive new volume, pioneer new space, develop specific tailored product, see results like Thomas with China that continues to be a growth engine for us, particularly with that brand with a movie release in 5,000 theatrical doors, we're excited about the potential that the emerging markets will generate for us.

And then obviously as I mentioned, most importantly our connection back to execution with our commercial partners. Not to underestimate the power of relationship and the integration of the brand group and the commercial group directionally has proven successful, and I think 2016 will be another good execution year at retail.

Kevin Farr - Mattel - CFO

I'd say we had 18 months to plan for this gap. We've known for a while we had to fill the gap and I think the other key thing is when you peel back the POS momentum, you see we've got POS momentum on our key brands in both mature markets, the US, and international, core Europe. That's about 70% of our business.

So having that momentum and having stabilized shelf space and hopefully growing it in the fall is another catalyst for us to close the gap. And the other thing I think is MEGA is also an opportunity for us this year, particularly with the release of Teenage Mutant Ninja Turtles. We've got a few things that are instrumental that will happen more in the back half of the year. But we're confident that we think we can get to relatively flat.

Chris Sinclair - Mattel - Chairman & CEO

I would say cautiously optimistic.

Ed Wendell - Barclays Capital - Analyst

Thank you.

David Zbojniewicz - Mattel - IR

Next question will be from Linda Bolton Weiser from B. Riley.

Linda Bolton Weiser - B. Riley & Company - Analyst

Thanks. So I think that we picked up in your presentations that there's really a culture change at the Company, especially around cost cutting and bringing it as a systematic part of what you do. You set this long-term goal of the 22% to 23% of sales. You do have cost cutting programs.

You've had the operational excellence for one to three, I don't know how many years. Yet that SG&A ratio has been stuck there at 25%. So I guess then maybe the reinvestment that has made that ratio not be able to come down or maybe you can explain more, what going forward, if could you give some examples of what you're doing in the Company that make you more confident that that ratio can actually come down, even though you're still doing all the cost cutting?

Chris Sinclair - Mattel - Chairman & CEO

I'll start that, Linda and then Kevin can jump in. But I think I said before, we've done a pretty good job over the last five or six years of taking out cost and we sort of had a number of programs that were broad-based initiatives. What I would tell you, though, is most of those efforts sort of took on some of the easier things to hit, whether it was packaging, materials, or some pieces of SG&A. But largely they were designed to sort of offset inflation and to a certain extent offset reinvestments we were putting into the business.



Then you had the deleveraging of our business going on, where we started to slip at the top line which has compounded the ratios. The last 12 months, we have made a concerted effort to go after everything. And one of the biggest areas we focused on was our global supply chain. We've invested in automation, a lot of productivity initiatives, have aggressively gone after materials top to bottom and even the overhead structure in our GSC, to the point in the past if we offset inflation we were happy.

Now we see a sight line to get a lot deeper than that, actually take real cost out after inflation. Some of this is being done through benchmarking, so we have a much better fix on where we should be and shouldn't be. You extend that into the rest of the organization on SG&A, I think we have taken off enormous amount of headcount. I think fair to say, probably of our headquarters type staff we went as deep as 15%, which was kind of unheard of.

We've redesigned a lot of functions. We've consolidated functions. We've gone after benefits which we've never done in the past to sort of get those benchmarked and up to best practice. Indirect purchasing, an area that we had never really effectively gone after. It was a huge source of cost for us.

I think now we've set up task forces to really go after the things that probably were sacred in the past, some of the brand, design development things and so forth. So I think the mentality is getting there. We're trying to get into sort of a zero based budgeting approach to things.

When you look at where we are today versus historic, we're a lot deeper on taking out costs. We're continually looking for ways make improvements, we're benchmarking and we're starting to do process mapping so we understand where the inefficiencies are, where we need to get them out, where we need to operate better. And outsourcing which, again, we haven't done a lot of in the past but I think we have some big projects going on in finance, human resources and so forth.

So I think a lot more confidence. We know how to get the costs out and as we start to leverage the top line, particularly looking out to 2017, I think you will see the ratios come back into balance. We're not going to get there this year obviously. We've got the tough top line. You will see real cost improvement in SG&A and I think we see our way to using our sort of cost of goods line to hold the margins on the gross margin line. That's big progress from where we were 18 months ago.

Kevin Farr - Mattel - CFO

I think we've raised the bar in really trying to develop a culture of continuous improvement. I talked about last week about outside services and we're using a zero base mentality there to look at what are we doing and what we're spending on. If it's not adding a lot of value, we're not doing it.

In a place like finance we're going through the work that we do and eliminate the work we consider low value-add and then focus in on can we do things more with scale and can we outsource more shared services for transactional work, and spend more time on decision support. So a lot of things going on to really bend the cost curve and have it show up on the bottom line.

David Zbojniewicz - Mattel - IR

Our next question will be from Greg Badishkanian from Citi.

Gregory Badishkanian - Citigroup - Analyst

Thanks. So how large could the Barbie shapes line become as a percentage of your broader Barbie business over the next two or three years? And how much of that sales will be incremental versus cannibalizing your traditional Barbie and Monster High business?

Richard Dickson - Mattel - President & COO

So we don't -- we're not breaking out the new shapes. It's within the core brand Fashionista collection. That is a significant part of our business, just core brand fashion doll sales. Within it, there are many different dolls, as you know. Diversity has extended that and now shapes extend that.

So we don't break it out. We do see growth. We've had a great year in basic fashion dolls, specifically with the infusion of diversity and all of the new creative that we've applied to the Barbie brand. We continue to feel the Fashionista collection and basic fashion with the introduction new bodies, we'll continue that trend.



Beyond that, the segments are entertainment based, key item based and then fashion doll. We don't share the percentages of each one of those as we move forward.

Gregory Badishkanian - Citigroup - Analyst

Incremental versus cannibalization?

Richard Dickson - Mattel - President & COO

I think that we'll see how it plays out. We actually don't believe that it's going to be cannibalizing. In fact, what we've seen so far, and we tested it, we actually see growth in multiple purchases. So arguably incremental.

I'm caution to say it's pure incremental. We believe that by giving girls more choice they will actually want to buy more depth and breadth into the line of fashion dolls. Whereas previously the Barbie image was the same across the various different worlds that we created.

So from a career perspective she would look the same. What identified the career was the outfit. Now what we've introduced is you could actually have an identified character, so that when a little girl or little boy plays with this collection they have various different looks and images that they can play out. So we hope and believe that there will be more incrementality to it than not.

David Zbojniewicz - Mattel - IR

Great. Our next question will be from Michael Swartz from SunTrust.

Michael Swartz - SunTrust Robinson Humphrey - Analyst

Good morning. Just wanted to touch on your commentary around getting back to that 15% to 20% EBIT margin. You didn't really give a time line. So maybe that's the first part of that, is when do you think we can get there?

And the second part is maybe framing the lower end and the higher end of that target and how we should think about product mix playing into that. Years ago when we were hitting that 15% to 20% target, the dolls business was a larger piece of your portfolio, but it looks like some of the plans, new product over the next couple years there will be a lot more licensed product in the kind of revenue mix. So how do we think about just that 15% to 20% target relative to product mix?

Kevin Farr - Mattel - CFO

I think what I said in my remarks last Friday was really as we look at 2017 we see a tailwind with regard to revenues. That's for continuing to build on core brand momentum, the stabilization of Monster High. And then obviously we've got some great entertainment licenses with Cars 3 for 2017, which we think in a movie year is about an incremental \$350 million of revenues.

And then when we look at the investments we've been making in sales adjustments and advertising, with tailwinds we can scale back those investments. And then again I think in terms of margin question and with SG&A, we are focusing on cost cutting and bending the cost curve and offsetting inflation. We expect that to continue to occur in 2017. We've got a clear line of sight to 2016, but we'll keep working on that in 2017. We said as early as 2017 you'd see us approach that range.

David Zbojniewicz - Mattel - IR

Your next question will be from John Taylor from Arcadia.

John Taylor - Arcadia - Analyst



Hi. I've got a question, I want to get in the weeds a little bit on Monster High if you I can. That clearly is still a pretty big chunk of revenue and it's -- I don't think the confidence level is quite there as it is on some of the other core brands. So I wonder if you could break that down a little bit, give us a sense of what the last year's revenue looked like in terms of US versus Europe? Because it was particularly strong in Europe there towards the end, places like spin and whatnot and maybe talk about sort of what you saw in POS trends, what kind of retail inventories there are out there, so we can get a sense of how big a headwind that might be and where it is. Do you follow my question?

Richard Dickson - Mattel - President & COO

Sure. I would -- we're planning realistically with Monster High. Obviously the trend has been very difficult. That being said, we have seen what we'll call less worse POS, particularly at the end of the year there.

There are pockets of countries within regions that are actually very strong. Russia in particular has been a phenomenal market for us with Monster High, even Ever After High and Barbie. We mentioned emerging markets in the macro term of it but within it, the fashion doll business is actually pretty compelling and within the fashion doll piece of the business, Monster High has been pretty well received.

Within the world of inventory for the year in 2015, we were over-sorted, we had heavy, heavy inventory issues and frankly, coming into 2015, we had a lot of challenges moving through that quickly. In addition to that, we had trouble getting the new items if you will into the market with a significant statement. As I mentioned, while the new items, scales, shapes, forms that we got into the market worked, actually turned pretty quickly, we didn't have enough of it in the market due to hangover inventory issues to really create momentum.

So to some extent 2015 was riddled with inventory issues, some brand content perception issues, fragmented communication, a little bit of tired if you will story telling, but yet the things that we did do in ways that we can borrow and learn and build upon, worked. So 2016 is really the continuation of what we know worked in a more significant way.

We are in a good position from an inventory perspective. We've worked really hard in particular regions, Europe specifically, to clear out inventory. We are seeing new inventory hit shelves with good reaction, in some cases POS is up as I mentioned the first time and in other cases POS is less worse.

So the balance of which, again, creates a conservative plan that we're looking for stabilization. That may be defined as low-single digit to flat (inaudible). Within the franchise itself, we do have some opportunities, we believe with some specific key partners to execute a bit differently. There's some open stock product that we're testing out and driving with some partners that we're anticipating some great growth with as well.

So look, I think overall we know the brand resonates, all the research and all the tests that we go through continue to reinforce that we've got great IP. We know how to make great product. We didn't put a lot of play value into the Monster High collection. Again, it was collectability. The weight of the inventory was 90% fashion doll. Within that, there's very little play value. Within that, the characters themselves which were proliferated, had no identity to grow.

It's taken a while to chip away at that. For 2016 and certainly going forward for 2017, there's more play value, there's features, there's functions. There's a narrowed down edit assortment in terms of character identification, refreshed content and pop culture messaging. It is a methodology. It is a formula. We anticipate that that will get some traction in 2016, making a good shot at stabilizing the brand and hopefully moving forward, we'll be able to present some opportunities for growth.

David Zbojnowicz - Mattel - IR

Our last question will come from Sean McGowan.

Sean McGowan - Oppenheimer & Company - Analyst

Thank you. I wanted to return to the line of questioning that Linda had before on some of the costs, and get as specific as we can on three things I want to know are included in the cost guidance, both for 2016 and beyond that. Does that cost guidance include any incentive comp or is it some is in there, it could be higher, it could be lower? Does it anticipate reduced manufacturing capacity?

You start of touched on that possibility I think in your comments the other day. Finally, does it anticipate the possibility of changing the packaging given the rise of e-commerce where you don't need the same kind of packaging that you need in stores, are these some of the things that are anticipated in your cost guidance?



Chris Sinclair - Mattel - Chairman & CEO

Let me start and Kevin, you can fill in. The incentive I think Kevin indicated when he presented on Friday, we've built in full incentives for 2016, which is above what we had in 2015 and as you know 2015 came in higher than anticipated. We finished a little stronger.

But we're anticipating we'll hit our numbers next year, so the full load of incentive is in there. Obviously if we go past our numbers it will go higher. So that should not be an additional drag.

The reduced capacity we have anticipated it. Obviously we've built up our doll plans, assuming that. And I think we've done some things on consolidating some co-manufacturing around the periphery that helps us.

I would say we're adding capacity by the way on diecast, sort of as an offset. But we've taken into account, if you're worried about the loss of Disney Princess or Monster High, that's built into our cost assumptions.

And finally, on the packaging front, we've got a lot of work going on on packaging and across different brand segments. Some of it's e-commerce related, but most of it is not. And some of it will roll through this year but a lot of it is sort of projecting out into 2017 as well. But packaging clearly is a huge area of opportunity when you look at materials.

Sean McGowan - Oppenheimer & Company - Analyst

Thank you.

David Zbojniewicz - Mattel - IR

So thank you, Sean. There will be a replay of this call available beginning at 12:00 Eastern time today. The number to call for the replay is 404-537-3406. And the pass code is 14933583. Thank you for participating in today's call. Operator?

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does concludes the program and you may all disconnect. Have a great day, everyone.

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