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# EDITED TRANSCRIPT

MAT - Mattel Inc Toy Fair Presentation

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## PRESENTATION

**Chris Sinclair** - *Mattel, Inc. - Chairman*

Well, good afternoon everyone and I'd like to also add my thanks for giving us the time today. Now our plan is to try to provide some insight on our progress to date as well as the opportunities that we see to grow this business in 2017.

And as Dave indicated up front, after our presentation those of you in the room will have a chance to see some of our new products up close. Some of our senior marketing people who will take you around the gallery.

Unfortunately, Mattel's new CEO Margo Georgiadis couldn't join us in person today. She has had a long-standing outside commitment and extends her apologies. But she did ask me to pass along that she's looking forward to meeting all of you in the very near future.

While we will forgo the Q&A today to make the best use of our time Margo along with Richard, Kevin and I will be hosting a webcasted live Q&A session with our sell side analysts next Tuesday, February 21st at 10 a.m. Most of you should already have that dial-in information, but if not please feel free to access our investor relations website for additional details. But today you will hear from a number of people on Margo's management team including Kevin, Richard as well as the leadership of our core brands, our Toy Box and our North American commercial organization.

Okay, so let me begin. And let me do so by saying that by any measure quarter four was a very difficult quarter for us at Mattel. The crucial holiday period was characterized by a significant category slowdown, particularly here in the US, and by increased foreign exchange headwinds. While the category did make a strong recovery the last two weeks of the year, the unexpected slowdown resulted in increased promotional activity and disrupted our anticipated shipping within the quarter, both of which had a detrimental impact on our financial results.

Now these are results that we own. And while difficult we continue to believe that we took the right approach to respond to the evolving market conditions and to respond while the consumer was still in the store. Unfortunately, the financial results mask a significant amount of progress made by this organization.

Progress in our core brands and licensed entertainment, in commercial execution and in emerging markets. Progress that we feel supports the opportunity for Mattel to grow in 2017 and well beyond.

You know, just two years ago we faced the daunting task of reversing some steep declines in our sales, the need to rebuild key license relationships and the need to turn the tide at retail and reverse some significant losses in space. In 2015 we succeeded in stabilizing the top line and we began to revitalize our core brands, achieve strong growth in our key emerging markets like China and Russia, we drove considerable cost savings, strengthened our position with our retail partners, secured several new content and technology partnerships and we began to rebuild our licensed entertainment pipeline.

And in 2016 we built off that momentum while facing still another set of challenges. We had to offset almost \$600 million in loss revenue from the loss of Disney Princess as well as deal with declining Monster High sales and those on American Girl. We also had to cope with significant foreign exchange pressure brought about by the relative strength of the dollar.



For the most part, what's gotten a bit lost in the headlines is that we executed very well against these challenges. In the midst of some ongoing cultural and organizational transformation, punctuated by political and economic uncertainty, category slowdown and foreign exchange headwinds, we did manage to make a lot of progress.

Excluding Disney Princess, we grew the business by 4% as reported and 7% in constant currency with every geographic region up solidly. We exited the year with strong and positive POS on our key core brands of Barbie, Fisher-Price and Hot Wheels. We also invested in technology and we greatly expanded our entertainment license portfolio.

I would like to point out that throughout all of this Mattel did manage to maintain its position as the number one global toy manufacturer. So we enter 2017 with a lot of good building blocks that are in place: a coveted and unrivaled portfolio of iconic consumer brands, POS momentum, a very solid slate of licensed entertainment properties, a very talented global workforce, a solid foothold in key emerging markets and a very strong leadership team.

We also remain committed to our capital deployment framework as we continue to invest in the business and to support the dividend and we recognize that there's still much more work to be done. And rest assured, we remain focused on growing the top line and on expanding our operating margins here as we work towards our long-term objectives on the financial front.

And most importantly, we remain driven by a collective passion and determination, one that's pushed us forward these past two years and one that's defined of Mattel for more than 70 years.

I'd like to thank you all for the time you are giving us today and for your continued support of Mattel. I know it has not always been easy, but I'm confident that Margo, her leadership team and the entire Mattel family will continue to build on the progress that we've been making. It's been an honor for me to be a part of this team, and I certainly look forward to continuing the work.

Now I'd like to turn things over to Kevin Farr who is going to share with you some of the particulars regarding our 2017 outlook. Kevin?

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

Thank you, Chris, and welcome to everyone joining us today. After taking the time to reset expectations coming out of 2016, my main objective today is to walk you through our current 2017 outlook. The headline here is we expect to see strong top-line growth and modest operating margin expansion and these continue to be our overarching priorities for 2017.

So let's jump in. Our prior revenue expectation in November was high-single-digits, but due to headwinds from foreign exchange and modestly elevated retail inventory levels we now expect to grow in the mid to high-single-digits. As Richard and his team will discuss in a few minutes, incremental revenues will come from a number of areas: continued growth from key core brands, incremental growth from our licensed entertainment portfolio and continued growth from emerging market investments.

More specifically, we expect to see solid core brand growth in Barbie, Fisher-Price and American Girl as well as moderate growth in Hot Wheels and Thomas. And we are planning for strong growth in our entertainment properties including Disney's Cars 3, Warner Bros. DC Comic Universe, Universal's Fast and Furious and Nickelodeon's infant and preschool lineup. We expect to see continued growth from our strategic investments in emerging markets, particularly China and Russia.

Our outlook includes the impact of the following headwinds. We expect foreign exchange to negatively impact revenues by about 1% to 2%, retail inventory at year-end 2016 will likely negatively impact the full year by about 1% and, unfortunately, we may continue to face declines in Monster High.

Margin expansion remains a key focus in the year ahead. We expect sales adjustments to be down slightly year over year as we continue to focus on commercial execution. We expect improvement with better demand planning and sourcing systems to ensure that the right inventory is in the right place at the right time.

And while there are a number of puts and takes, we should see improvement year over year in our gross margin rate. The key drivers of gross margin expansion from 2016 to 2017 include scale benefits of our strong revenue growth that will leverage our fixed supply chain cost base, the opportunity to strategically price our portfolio to help offset foreign exchange, and higher input costs.

More specifically, we will increase prices in international markets where the currency has weakened significantly in the last few years. And finally, we will benefit from our new supply chain cost savings programs.

However, partially offsetting these improvements are a number of headwinds, primarily foreign exchange and mix. Mix will be driven by increased royalty expenses related to our new entertainment slate.

As promised, we are kicking off another multi-year savings initiative led by our global supply chain organization. This initiative will prominently focus on reducing cost, increasing efficiencies and improving productivity within our supply chain.

We expect this initiative to generate \$240 million of cost savings over the next two years with \$120 million of gross savings in 2017. This program will focus on design, tooling, automation, sourcing and logistics.

As for advertising, we expect to be on the low end of our historical range of 11% to 13% and we are planning to be slightly below 2016 given our more robust licensed entertainment slate. We will also leverage content executions which are great engagement vehicles for us. We will gain traction on a number of our content partnerships such as Amazon Studios and DHX.

We will also continue to tightly manage adjusted SG&A. We will build on the momentum of our prior cost-saving initiatives but we expect to see some headwinds including higher employee cost due to merit increases, a plan to increase an incentive pool and a continuation of investments ahead of growth in emerging markets and technology.

So when you take into consideration our top-line momentum and financial discipline in the middle of the P&L, we expect to expand our adjusted operating margin by about 100 to 200 basis points in 2017. And assuming no changes in current tax laws our current tax rate assumption remains at 21% including discrete tax items. Also, we have recently adopted the new accounting standard related to stock-based compensation which may impact the tax rate going forward.

And I know there's a lot of discussion going on about the proposed significant changes to US tax laws and trade policies. What I can say right now is we are monitoring these discussions and are assessing the potential implication. The proposed changes could potentially have a significant impact on our tax rate since most of our products are manufactured outside the United States. However, there are still too many unknowns to comment on the potential magnitude of the impact, if any, at this time.

As we think about cash flow in 2017, we expect significant cash flow generation with top-line growth, some margin expansion and improved inventory management. In addition, with the launch of our entertainment slate during the summer months, we expect improved cash flow due to higher cash collections from customers in the second half of the year.

With our strong balance sheet and cash flow we will continue to invest in our ongoing business and future growth. We also remain committed to the dividend and will continue to have a strong balance sheet even if we see adjustments in our credit ratings. We expect to continue to have adequate liquidity in commercial paper markets where we efficiently fund our working capital needs for the year. In addition, we have the ability to access a \$1.6 billion revolving credit facility.

All in all, we believe this is an achievable operating plan for 2017. The cadence of our annual operating plan will be much different than the last couple of years. We expect first quarter revenues to be done mid to high single digits as a result of the elevated retail inventory at year-end 2016.

Gross margin will also be down moderately due to the foreign exchange headwinds and some targeted inventory cleanup. However, we expect to see significant growth in revenues in the second quarter due to the initial ship-in associated with the launch of the Cars 3 movie, which will be a milestone for the change in trajectory of our top-line and improved profitability for the balance of the year.



Looking beyond 2017, our long term operating margin targets remain at 15% to 20%. We expect the top-line momentum to continue in 2018 and beyond, driven by a very diverse portfolio of brands and geographies.

Core brands should continue to grow as well as Toy Box. Our entertainment licenses will be augmented by Jurassic World, continued expansion of Warner Bros.' DC Comic Universe as well as a strong slate of new entertainment properties, and we expect Cars 3 to continue to do well in 2018. We expect continued growth from our investments in technology and developing in emerging markets and we will continue to leverage our content and strategic partnerships.

So let me close by saying this: despite the challenging fourth quarter, we are entering 2017 with momentum in our core brands, a robust entertainment slate and accelerated growth in emerging markets. With Margo joining us as our Chief Executive Officer we will continue our transformation and look to grow the top line and expand margins in 2017 and beyond.

And with that let me now introduce Richard Dickson, Mattel's Chief Operating Officer. Richard?

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**Richard Dickson** - *Mattel, Inc. - President and COO*

Come on, Kevin. I think that's probably one of the first times Kevin's gotten applause after one of these things. I think that's pretty good.

Thanks Dave for knocking me on the way up here about our airport. But for those of you who travel frequently, I can imagine many of you do, there is a rule, right? If you are going away for a couple of days you don't check luggage.

Who checks luggage for a couple of days? Dave checks luggage. So I'm not waiting in the airport for Dave to find his luggage and get into the car, so there you go Dave. Now hopefully all of you can harass Dave individually on that one.

All right, so thank you Kevin, and good afternoon everyone. So over the last several weeks clearly a number of people both inside the Company and outside the Company have asked me what's going on at Mattel. So broadly speaking the answer is more than ever.

And I'd like to focus my remarks today on answering a more pointed question: so why should you continue to believe in Mattel? So let me start by saying that Mattel is in a much better place now than where we were in 2015. I fully believe in Mattel and remain committed to the priorities that Chris and I laid out in 2015.

Over the past two years our concentration on those priorities has stabilized the business and positioned us today in 2017 to grow the business. Now make no mistake about it, Mattel is on a path to grow. We are a leader in a growing industry and we have the capabilities, the brands, the products, to connect with, engage, motivate our consumers as never before.

Now I know that you've heard this from Chris and Kevin, but our progress around our strategic priorities has really been the key. Our biggest core brands have new momentum. Each of them are rooted in clear purpose and focus on their investment.

Our entertainment partnerships are healthy and full of opportunity. We are accelerating growth in emerging markets where our brands and our products are popular with growing consumer populations. Our commercial execution, including e-commerce, is more effective and competitive, particularly on a global scale.

Our new leadership with the credentials to access and accelerate technology enablers, it's leveraging an experienced management team where Margo, a former friend -- well not a former friend, a friend and former colleague -- is going to be an incredible asset to us. And I am truly excited about the expertise and the promise that she brings to all of Mattel. So in a few minutes the talented leaders of core brands and Toy Box and commercial will highlight our 2017 plans, brands and products. And many of which, you will hopefully get to experience when you go upstairs.



But first let me provide some context on the solid platform for growth and innovation that we've created. Today Mattel core brands represents about two-thirds of our business, and they are in a good place. They are positive performers with sales up, forward momentum and brand equity moving in the right direction.

Now restoring the vitality and relevance of such large global brands is both strategically and operationally complex, and this organization has risen to the challenge by clearly and competitively defining each brand's positioning in the marketplace, by opening up new opportunities through strategic segmentation, by developing extensive brand-enhancing content, by actively seeking out game-changing partnerships to infuse new relevance, and most importantly, by creating innovative and resonant new products often enabled by breakthrough technologies. We have made bold moves and some of the biggest product successes have come from breakout thinking applied to traditional toys, demonstrating our renewed confidence and courageous new thinking driving our core brands.

Let me highlight a few of these examples ahead of Juliana's more detailed discussion of each core brand. Barbie. Barbie continues to expand the boundaries of play with innovative items that leverage a range of technology to inspire the limitless potential in every girl.

The latest from our advanced Hello Barbie line, which you will see later, I encourage you to take a look at it, is just one example. It's taking our leadership in artificial intelligence enhanced play to a whole new level. Our bold rethinking of the iconic Barbie doll represented the significant cultural innovations that we continue to pursue: exciting and new relevance and expanded play opportunities through diversity. And this year we will add more strategies to expand the brand, include strategic segmentation that enables both younger and older girls.

We have successfully recommitted Fisher-Price to being the global leader in development at every stage of early childhood. Our component of this strategy has been to infuse classic product forms with remarkable new learning features and technologies that parents today want. The rapid and meaningful embrace of technology at Fisher-Price is a major component of the brand's learning and development leadership strategy today.

Our acquisition of innovative technology companies and an infusion of new talent and skills has enabled us to quickly and confidently develop entirely new avenues for growth with breakthroughs like Aristotle, a revolutionary smart parenting assistant born from our partnership with Microsoft.

Hot Wheels. Hot Wheels has been a consistent performer, but we've completely reinvigorated it for growth. With a designer leading the brand we've expanded the play potential through the natural fits of digital and gaming. We've rethought the entire content strategy and boldly shifted from conventional episodic content to the infectious user-generated content that's the perfect fit for this brand.

And we have innovated classic product, generating incremental opportunity from die-cast cars as well as the wildly popular Hot Wheels Garage and the Hot Wheels Ai. This expensive development of the brand coincides with a global surge of vehicle play, creating a new demand that we intend to capture.

American Girl faced challenges from product to distribution. We worked very hard last year on every aspect of the brand from strategy to product to content and retail distribution. And the work is paying off.

WellieWishers is successfully expanding the brand and the audience for the brand both in age and a broader retail distribution plan. A new content strategy and partnership with Amazon is making story a powerful component of this brand once again. And we have dramatically expanded the retail availability of American Girl with our new experiential shop-in-shop at more than 100 Toys "R" Us locations.

Brands that have been around as long as those that I've just mentioned are a rarity in this business. And when they are inventive, relevant and growing, they are remarkable assets with distinct competitive advantages.

The 2017 core brand plans are built on this strength and ambition. And Juliana will have much more to share with you across the full range of core brands in just a moment.

Now while our core brands team focuses primarily on growing our own global IP, the other one-third of our business requires a different approach. Toy Box. Toy Box was created to be the hub of innovation for new toys and categories, to reestablish valuable partnerships in the entertainment, inventor and technology communities, to leverage our global scale and to increase our speed to market.

Two years ago when Toy Box was launched we had just lost the Disney Princess license. Now it was clear to us that we needed to rethink our approach to licensing, strengthening and rebuilding all of our partnerships and forging ahead with new ones. Since then we've made tangible progress reestablishing Mattel as the industry partner of choice and our pipeline of new product is robust, as you will hear today from the head of Toy Box Susie. And you will see for yourself upstairs.

We are strengthening our relationships with our inventor community. Being the first choice of the inventor community is a tremendous advantage, and we are working very hard to earn their preference. Proof of our progress can be seen in the exponential increase in inventions being pitched to us and the exciting ideas that we are going to be bringing to market.

The transformation of our culture, the acquisition of innovative technology companies and the infusion of new talent and skills have enabled us to quickly and confidently develop entirely new avenues for growth in the Toy Box. And nowhere will our spirit of invention be more visible, inspiring, and entertaining than in our very own prime time toy intention show for ABC. And it's called The Toy Box, so look for it when it premieres on April 7.

Our construction brand MEGA is well-positioned to be a disruptive challenger in the construction category. In addition to great foundational product, this brand continues to prove itself as a versatile platform for licensing both for our own IP and with license partner IP. This year we are investing in a new brand marketing and expanded distribution campaign with a focus on international markets.

The more entrepreneurial Toy Box capabilities and culture make it the ideal home for trend-driven brands. For example, we made the strategic decision to move the Monster High brand into this group. The Monster High performance in 2016 highlights the need to change the investment model, and the entrepreneurial spirit of the Toy Box makes it the perfect place to execute a fresh, new, innovative approach and improve our efficiencies.

So as you spend time with us today here at Mattel I hope that you see, just as we do, the many exciting opportunities for growth that exist across our brands, our products, our partnerships and our geographies.

So let me close by personalizing the question that I asked earlier and tell you why I believe in Mattel. It's because I have the privilege to lead a team that is creative, passionate, innovative, inventive and ultimately our work that inspires the wonder of childhood. We get to play every day in an industry that's influenced by pop culture, fashion, music and entertainment and inspire and delight kids all over the world. And as you can see, we've set the stage to grow.

So we are excited and we are thrilled to have you here today so that you can see our experience, our passion firsthand and hopefully as you engage in our product you will experience the same excitement that we have at Mattel.

So now I'd like to introduce our Chief Brands Officer (who has an amazing accent that you will enjoy very much) and the head of our core brands, Juliana Chugg. Juliana.

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**Juliana Chugg** - Mattel, Inc. - EVP and Chief Brand Officer

Good afternoon. Thank you, Richard. Today I'm here to talk to you about our core brand portfolio.

I had the opportunity last November during our Analyst Day to share with you our core brand initiatives. I plan to summarize the tremendous progress core brands made in 2016 and provide an overview as to how we plan to continue the momentum this year.





Core brands have been defined as enduring, scalable, with broad awareness and reach occupying market-leading positions in the segments in which they compete. We have prioritized our core brands as Barbie, Fisher-Price, Thomas, American Girl and Hot Wheels. These five brands touch the developmental lifestage of the children we serve from birth to 12 years across both genders.

Collectively these brands account for about \$4.5 billion of our global shipping. In 2016 core brands delivered \$280 million of incremental shipping, representing growth of 6%. Our three largest brands Barbie, Hot Wheels and Fisher-Price, all grew in 2016. Thomas continues to grow in international markets and American Girl was effectively stabilized.

I will now share with you highlights of last year and how we plan to expand key initiatives to drive growth, starting with Barbie. The significant growth last year that we experienced can be attributed to three strategic initiatives.

Firstly, our unwavering commitment to build a powerful brand franchise resulted in a significant shift from toy advertising to investing in talking to mums about the purposeful nature of the brand and the limitless potential Barbie inspires in each and every girl. Our equity measures are the strongest they have been in years, translating to overall growth across the franchise.

Secondly, we innovated against the core to be a more inclusive and diverse brand from a variety of body shapes to the 23 multicultural dolls we introduced. This line was so successful that this year we are expanding distribution globally.

Our purposeful message also translated to the expansion of modern career playsets. Last year we added president, veterinarian and game developer Barbie. This product line really resonated with parents and girls alike, delivering exponential growth.

Building on this success, we are adding additional careers to continue the momentum. The media and consumer response to our evolution was significant. From the front cover of Time magazine and the 5 billion impressions our diversity message generated around the world, to relevant product that supported our brand position, to the increased investment we made in mum-directed advertising were all the elements that worked in concert to change the conversation about Barbie and build advocacy with mums.

As we improve brand equity and resonance we see it translate into sales. And in 2016 Barbie remains the number three toy property globally and the number one doll property. We've also had the best-selling toy item in holiday 2016 with the Barbie Dreamhouse.

Our third strategic initiative was to engage younger girls. We underindex with this consumer and the launch of Dreamtopia content and supporting product against a fantasy thematic really resonated with younger girls and was extremely incremental.

Last year the powerful combination of purposeful marketing, culturally relevant innovation amongst the core and building relevance with a younger audience through product and content delivered widespread growth globally. We made incredible progress with Barbie last year with consumer point-of-sale growing double digits the last three quarters of the year giving us momentum and confidence as we head into 2017.

We have a winning strategy. Building on the success of Imagine the Possibilities and the purposeful nature of imaginative play, we are expanding our conversation with parents by actively engaging dads. Dads Who Play with Barbie highlights that a dad's involvement in his daughter's imaginary play contributes to her social, intellectual and emotional development in real life.

This campaign resonates with both mums and dads alike and builds on prior success. Let's take a look at the spot which is driving significant social buzz.

(video playing)

Our research has highlighted the importance and role content plays in brand love and engagement. This year it marks an important significant shift in the investment we are making in content. Two series will be created speaking to two discrete audiences in a way we have never done before starting with the younger girl.



Building on the success of Dreamtopia we will be shifting from a movie special to an episodic series to provide ongoing content where girls can tune in to watch Barbie and her younger sister Chelsea journey into a fantastical world complete with mermaids and unicorns to lands filled with sweets and magic. Building on our prior year success we will be supporting our content with an even more immersive line of products.

Targeting an older girl, we will be introducing episodic content that focuses on real life stories. Dreamhouse Adventures will provide storytelling about Barbie and her older sisters with relevant themes centered around significant lines of business from her world within her dreamhouse to her love of fashion infusing careers and adventures to exciting destinations. These storylines will be supported with relevant product that creates hours of imaginative play.

Building on Barbie's momentum presents an opportunity to expand the brand beyond the fashion doll segment and enter the large and growing small doll collectible segment. We have developed an adorable line of affordable motorized dolls and playsets that leverage the equity in an incremental play pattern.

Technology and connectivity are hallmarks of the environment within which we live and Barbie continues to push and explore the boundaries of play by creating innovative items that support the brand's purpose. As we continue to iterate and evolve prior technology developments this fall will see the introduction of Hello Barbie Hologram. During your tour you will see how this product brings the power of artificial intelligence to life with a holographic simulation that girls can control and play with throughout the day.

Voice activation and automatic speech recognition find access to music, custom alarms, nightlights and daily reminders. This product delivers fun, interactive features, allowing girls to personalize their play experience.

Barbie is a textbook case study around how to reinvigorate a 57 year old global icon strategically shifting our investment from item advertising to purposeful marketing, innovating within the core around diversity, developing new sources of business, targeting younger girls in the fashion doll segment and beyond. Add to our product strategy an unprecedented content plan with two episodic series, we have a playbook that will truly inspire and engage girls to realize their limitless potential. We have a strong, proven plan to continue her growth agenda.

Moving on to Fisher-Price, our vision is to fully integrate child learning and development into play. Education is not always playful, but we are committed that play be educational. We are pleased with our efforts to restore growth to this important business.

Fisher-Price provides the best possible start for parents and their children with a portfolio of products from birth to bus. We do this by providing a whole child approach, addressing children's physical, social, emotional and cognitive development with an emphasis on preparing today's children for tomorrow's opportunities.

Our baby gear and newborn products provide solutions for sleep and physical development. Then our infant and toddler portfolio guides them through cognitive and emotional development to our preschool products which foster learning, both academically and creatively, as we prepare them for school and beyond. No other brand in our industry covers the scope of childhood development quite like Fisher-Price.

We exited last year with strong point of sale. And our brand equity and awareness continues to be strong as we maintained our category leadership as the number one most trusted and loved brand by mums.

Starting with our baby portfolio, our priority was to renovate and modernize the core by elevating our design quality to increase millennial appeal and to infuse technology and innovation into our product line to provide enhanced experiences and solutions. Last year Jonathan Adler, our new Creative Director, infused a contemporary aesthetic into our line. Our exclusive launch with Buy Buy Baby has paved the way to expand our footprint in new premium channels of distribution that we will be capitalizing on this year.

We plan to really own sleep, a solution all parents seek for their newborn babies. Creating a connected nursery ecosystem where technology will make parenting less worrisome and more fun by taking away some of the guesswork is part of our mission.



We made two strategic acquisitions last year, Sproutling and Fuhu, to complement and enhance our Smart Connect baby gear line. Smart Connect enables you to use your smartphone or tablet to control your swing or mobile, keeping the soothing going without disturbing baby.

We are also integrating Sproutling and Aristotle into this platform. Sproutling is a baby wearable device which learns and predicts a baby's sleep patterns and optimal sleep conditions. Aristotle is an all-in-one, voice controlled, smart baby monitor designed to comfort, entertain and teach during each development stage evolving with a child as their needs change. Aristotle was revealed at CES this January where it has garnered more than 2.5 billion media impressions and was featured as one of the products to watch this year from media outlets such as Time and the Wall Street Journal.

Now that we have babies sleeping, they are ready to start walking and talking. And this is where our infant portfolio steps in to continue the developmental journey.

BeatBo had a strong year, too, with sales almost doubling. This year we are introducing a line of friendly monsters that help babies develop important gross and fine motor skills.

Zoom and Crawl Monster will playfully encourage babies to crawl, walk or chase as he spits out balls and zooms around the room.

Our first-words puppy teaches infants to learn and practice their very first words using fun and innovative technology. Infants will interact with puppy using his RFID coded blocks to unlock multiple levels of learning and play. This product will grow with a child as they expand their vocabulary with a cognitive and contextual content. This global launch will be available in 15 languages.

As infants develop into toddlers, they progress to where social and emotional development is key. Little People, one of our most iconic and beloved brands, specifically focuses on this aspect of development. This year marks the global relaunch of this brand.

In the gallery you will see a complete refresh of our iconic farm with the addition of a new pet rescue playset. Each of these products will display electronics that message the caring and helping of others along with iconic sounds and enhanced play features. We have invested in episodic content to engage toddlers with storytelling teaching important lessons about being kind, caring, community-minded little people.

Here is a sample of the content.

(video playing)

The next phase of parenting is preparing the child for school. Fisher-Price understands the power of play to develop creative thinking both academically through STEM, science, technology, engineering and math coupled with developing imagination and creativity through storytelling. Last year we reentered the preschool arena with a line of products that develop academic skills.

Given the increased interest in teaching kids coding we are excited about our Code-a-pillar introduction. This product was a sellout success and we expect strong performance this year as we increase awareness and expand distribution.

Robotics is another area of growth, and we are pleased to launch Teach 'n' Tag Movi, an engaging and developmental robot. Movi's infectious personality and seemingly endless content in the form of games will keep kids moving and learning for hours of fun.

As we expand our presence in the preschool segment, we are excited about the introduction of our enhanced Smart Cycle. This platform has been reimagined to infuse technology and connectivity with the integration of tablets, smart devices with the ability to stream directly to a screen. Smart Cycle gets preschoolers active while immersed in the games they love with fun and educational content from popular Nickelodeon licenses.

More titles will be added next year as Smart Cycle becomes a platform for learning and play. In January, Smart Cycle took home the prize of Best New Product at CES.



Creativity and storytelling contribute to our ability to develop the whole child and Imaginext is our platform to do just that. This fall we are proud to introduce Treasure Hunter playsets, vehicles and figures. Collectively, this new world of play will bring the mystical and fantastical world of mummies, pyramids and desert creatures to life. And, of course, every child loves finding treasure.

Pivoting from product to marketing, we made significant progress last year driving digital engagement. Acknowledging that our audience is millennial parents and they source information online, we have significantly shifted our investment to this important channel and we have seen tremendous results. We added new content that serves parents' needs from play tips, relatable parenting moments and organic product integration.

Engagement and views are at an all-time high as we become a trusted resource for millennial parents. This fall we will see the introduction of a brand TV advertising campaign targeting parents and bringing our purpose of best possible start to life in ways that highlight the learning and development benefits we provide to prepare today's children for tomorrow's opportunities.

I would like to close this section with a video that highlights the learning and developmental journey only Fisher-Price provides from birth to bus.

(video playing)

Thomas also competes in the preschool segment and the franchise continued its growth trajectory. Strong international performance, notably in Russia and China, contributed to our overall performance.

The Thomas business operates in three segments: vehicles, playsets and licensed products. In the vehicle segment we identified an opportunity to capitalize on the collectible play pattern and introduced a line of adorable themed mini vehicles at accessible prices to drive incremental growth. Last year we doubled the shipping on minis, driving significant growth in the vehicle segment.

In the playset segment we launched Sky-High Bridge Jump. This \$100 item, a first for the brand, was tied directly to our content and captured the key moment of suspense in our movie, The Great Race, delivering strong results.

Building on the success of big-ticket items, we are introducing the most spectacular superstation. And the really big deal, other than how amazing it looks, is that for the first time we have brought track innovation to this playset via a standardized universal system that works with any Thomas engine regardless of scale and segment.

This has been an ongoing request from parents. Given the enormous play value and vehicle integration, we are confident it will be a big hit this holiday season.

Moving on from product to marketing, we have made significant progress in engaging preschoolers online. Thomas is the fourth-largest channel on YouTube with over 10.5 billion lifetime views. And year over year we've seen a dramatic increase in reach to our key demographic as children actively switch to this important channel.

Additionally, Thomas is an all-star when it comes to engagement on Facebook. Our helpful content speaks directly to mums about ways they can delight their child from baking to arts and craft initiatives to themed birthday parties.

Our full movie, Journey Beyond Sodor, is another first for Thomas as he leaves the island of Sodor, experiencing things beyond his wildest dreams, meeting new diverse characters, culminating in a dramatic climax. The movie release will have full marketing support across the franchise including retail, live events and cinema screenings and promotion.

In order to capitalize on the love parents and kids alike have for this brand, licensed opportunities continue to be an area of focus. In order to catch a younger audience, our newly developed infant guides are providing licensing opportunities in apparel in major markets like the UK and Australia.

You will also see a strong focus on girls. Later this year license products in apparel, backpacks and footwear will be launched in the UK, Australia, China and Japan with more markets to follow.



On the toy product front, our innovative My First Railway toy line introduces this fall delivering developmental benefits through interactive electronic features that expand the brand into incremental retail whitespace targeting a younger audience. Thomas is a powerful brand franchise that provides young children the opportunity to have an immersive experience from toy play to apparel to content and live events. We are committed this year to provide more opportunities to engage young children through accessible price points, fully integrated playsets and compelling content that inspires brand love.

Moving onto American Girl. 2016 was an important year to stabilize this business and lay the foundation for growth as we embarked on a turnaround plan. There are a number of strategic investments that we made to restore brand health.

Starting on the product front, we introduced a new segment of dolls, playsets and narratives to access a younger consumer under the sub-brand, WellieWishers. Secondly, regarding marketing and consumer engagement, we made a strategic pivot on how we would create and distribute content. Last year we announced a strategic partnership with Amazon Studios. And, finally, we were committed to providing broader access as we continue to expand our footprint through wholesale distribution.

So how did we do and what does it mean for our future? On the product front, WellieWishers, an adorable assortment of dolls, playsets, books and apparel, definitely attracted a younger consumer with the average age at five compared to our core line which averages entry at seven years of age. The launch was supported with charming episodic content to provide engagement and awareness.

In its first year, WellieWishers contributed significant annual sales, making it the largest launch for a new sub-brand in American Girl history. We are excited at the prospect of engaging girls earlier into the franchise and expect this business to grow double digits as we increase brand awareness and distribution.

Let's take a look at the launch spot which contributed to our sales growth.

(video playing)

Acknowledging the size of the construction category and our capabilities in this area, we partnered with our friends at MEGA and launched a line of products that tie directly to our content. The performance of American Girl MEGA construction was a highlight in the MEGA portfolio contributing to that brand's performance last year. We are expanding the product line to include WellieWishers this year.

Within our core line of dolls we have an exciting lineup across our three segments: Truly Me, Girl of the Year, and historical characters. American Girl responded to consumer requests for more diverse characters and launched its first African-American Girl of the Year character, Gabriela.

Additionally, we identified an opportunity to introduce more characters that tell contemporary stories beyond Girl of the Year. And this week the introduction of Tenney and our first ever American Boy, Logan, received unprecedented press coverage and buzz. Tenney and Logan are singers and songwriters from Nashville, providing us with the ability to infuse country music into our storylines.

Consumers have been requesting the availability of boy characters within the franchise and we are delighted to be more diverse and inclusive and do it in a way that is authentic.

Historical Characters continue to be an important part of the portfolio in this year's Historical Character is Nanea, a nine-year-old girl growing up in Hawaii during World War II. Nanea does her part to help and heal during wartime. Her stories teach girls that doing good deeds and giving selflessly sometimes requires sacrifice and that it's everyone's responsibility to lend a hand for the greater good.

Within the Truly Me segment we are providing girls with the opportunity to not just pick a doll that looks like them, but design and order dolls that take customization to a new level. A doll that you have personally designed will deliver a premium experience like no other. As you can see, this year we are innovating within the core to appeal to the diverse audiences we serve to attract as many children into the franchise.



As you are aware, last fall we expanded distribution via new retail partnerships. This initiative was designed to provide more access to our brand, expanding our consumer base. This expansion increased household ownership, something we had not seen in a long time. Point-of-sale was strong ending the year and we are committed to working with our retail partners to grow this important franchise.

Providing memories that last a lifetime is all part of our strategy as we elevate in-store experiences. Our New York flagship store currently under construction is scheduled to open in November. And we will be ready to delight and inspire girls with new experiences, unique products, generating significant buzz right in time for the key selling period.

Meaningful content and storytelling is central to American Girl. Last year our entertainment and YouTube content delivered engaging results with YouTube engagement up significantly. Amazon Studios released two American Girl original specials last fall receiving numerous accolades. This year two movies are planned supporting a historical and contemporary character as we continue to leverage this important relationship.

We are committed to posting growth in 2017 with full-year wholesale distribution, annualized sales of our successful WellieWishers platform and through accelerated growth of our New York store, the largest flagship in the franchise. We are investing in our direct-to-consumer platform with enhanced CRM capabilities so that we can more effectively engage and convert more diverse consumers to the world of American Girl.

Moving on to Hot Wheels. We had another really strong year. Our commitment and focus to reinvigorate these core brands was evident in the pivots we made on Hot Wheels. We had three strategic imperatives to accelerate growth.

Firstly, infuse technology into new incremental segments such as gaming and remote control and it was a hit.

Secondly, we invested in developing broader systems of play with higher-priced play sets to house the collection of basic cars and that drove significant growth.

And thirdly, we shifted our focus from episodic content to YouTube short form that engages our core audience in ways we had never done before and the results have been tremendous.

Track and playsets saw solid growth with the expansion of the ultimate garage to markets beyond the US. The global launch was a sellout success setting the stage for even bigger things this year. On the innovation front Hot Wheels entered the remote control segment, which resulted in significant growth, making top toy lists with Hot Wheels Ai, a next-generation head-to-head racing system we infused with technology. This segment appeals to an older consumer and enables us to keep brand fans in the franchise even longer.

We also had a banner year in improving engagement with our brand. Our increased investment in digital content attracted a huge audience. We registered spectacular views on our Hot Wheels YouTube channel with fans of all ages. Our YouTube site is the fastest-growing channel and provides us with an effective medium to engage our audience. Here is a small sample of the content being shared and liked.

(video playing)

YouTube wasn't our only digital success last year. We made significant progress in entering the large and fast-growing world of gaming. We started by partnering with Microsoft's highest rated and best-selling console racing game franchise Forza. We incorporated Hot Wheels branded downloadable content into Forza Motorsport 6. Our gaming content became one of the most popular and best-selling additions in the history of the Forza franchise.

Another partnership was with Racing Rivals, a top mobile racing game, featured a weeklong Halloween themed Hot Wheels tournament that included three iconic Hot Wheels originals. These vehicles ended up being the best selling cars of the year. The event attracted the highest percentage of user participation ever recorded for the game.

Building on this success in December we launched Hot Wheels Race, our first ever all ages fully branded mobile game. Hot Wheels Race Off became the number one racing game around the world with significant downloads. We are excited about our entry into gaming in ways that delight and engage our brand fans of all ages. Take a look at this compilation of our gaming initiatives. Oh, and feel free to download the app.

(video playing)

This year for the first time we will be investing in communicating to parents our authentic brand purpose by highlighting and reframing for parents the important developmental benefits the brand delivers. Our goal is to convert mums to brand ambassadors so she loves the brand as much as the children who play with them driving even higher sales conversion.

Our innovation in track and play sets will continue. And for the first time we are bringing construction play to track building and action. Featuring MEGA Bricks, we will be combining the two play patents into one platform to create endless possibilities of creativity and performance. Let's take a look.

(video playing)

Enhancing the successful Hot Wheels Ai platform, we plan to incorporate popular licenses in addition to prestige licenses. More innovative features will be demonstrated in the gallery to ensure our next-generation racing system delivers a strong year two and continues to attract older fans.

And of course the piece de resistance will be the launch of our biggest garage ever with the Super Ultimate Garage, giving kids the opportunity to race and organize their expansive collections. Complete with a motorized elevator, side-by-side racetrack, car wash and parking spaces for over 100 cars, this is sure to be a big hit this holiday season.

Hot Wheels is a large and important brand. We have a strong slate of proven platforms that we are building on in 2017 from innovation within the remote control segment to the creation and expansion of large systems of play, to the introduction of construction within classic vehicle play, add to that our entry and expansion within the gaming arena, we are creating incremental opportunities to engage our brand fans.

And finally, investment in purposeful messaging to parents will create advocacy and conversion as we demonstrate and communicate the value this brand delivers in both learning and development.

In summary, we exited last year with momentum against our largest core brands and we had a strong plan to drive growth this year. We have placed significant investment in key bets around innovative products and marketing that deliver on our purpose of inspiring the wonder of childhood as we prepare today's children for tomorrow's opportunities.

Thank you for your attention and now over to my partner in the Toy Box, Susie Lecker.

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**Susie Lecker - Mattel, Inc. - EVP and Chief Brand Officer**

Hi everyone. Thanks, Juliana. Welcome, everybody. I'm Susie Lecker, I head up the Toy Box division for Mattel. And since it's been a few months since we last met, I thought I would give you a quick reminder on what the Toy Box division is before I take you on the exciting journey of our key initiatives for 2017 that you are going to see upstairs in the gallery.

So the Toy Box division is the entrepreneurial arm of Mattel at the edge of what's now and what's next, challenging convention and delivering the magic that inspires the wonder of childhood. We operate across all industry categories and our Toy Box holds all of our key brands that are in partnerships with the big studios across all of these categories, Nickelodeon, Disney, Universal, DreamWorks, WWE and Warner Bros. We continue to partner with the best and we are committed to being the best partner.

These brands, whether from partners big or small, are incredibly important to our business. We know they are front and center in the hearts and minds of kids and kids at heart. And the Toy Box is where their emotional connection to the content meets their imagination as we bring to dimension these beloved characters and develop toys that help them play out their favorite stories.

We also have some of our own IP in the Toy Box, sometimes brands, sometimes items, all with the objective of driving news and freshness in the industry. You will consistently see us take risks, whether it is to find the next new hot and exciting phenomenon in the toy space, or to launch what we hope will be an enduring brand. We are unapologetically striving to do both, either in existing categories or categories we invent.

So, what does this all mean for 2017? Well, we are planning for aggressive growth in the Toy Box as our own brands and our valued partnerships have an exceptional slate of news and entertainment. To achieve this growth we have articulated three key strategies. The first, invent new categories and pioneer relationships to deliver on the growth this year and future growth. The second deliver invention in key categories across partner and owned IP. And the third, of course, to optimize our partner relationships.

One thing I can promise you, you will hear the word invention a lot from me. It is at the heart of what the Toy Box is and does. We have a long history at Mattel of valuing invention. As Richard noted, one example of this is our working relationship with the inventor community as an extended arm of our design and development teams. And that's reflected in the increase in volume coming from items that were either inventor developed or inventor inspired.

In 2016 we posted a 10% increase in volume of items versus 2015 and, compared to 2014, we have increased 16%. We are constantly striving to collaborate in new and unique ways with these key partners.

So let me talk you through how we are planning to deliver on our objectives in 2017 as we begin our journey through the galleries. Let's start with inventing new categories and pioneering new relationships. I hope you will make the trip upstairs to see firsthand how invention is front and center in our lobby and the first statement as we celebrate some of our key new relationships in the technology space.

But it doesn't stop there. We have upped the ante on invention, both from an approach and delivery perspective with the Toy Box TV show which will debut on ABC April 7th. Hosted by Emmy award-winning and exceptionally lovable Eric Stonestreet, in each episode inventors will compete to have their toy interventions selected by a panel of very discriminating judges to ultimately win a coveted contract with Mattel to manufacture and market their invention.

Episode after episode you can truly see how these inventions inspire the wonder of childhood in every age demographic. Promos for the show leading up to the premiere on ABC have already started. Let's take a look.

(video playing)

I think you all laughed at the make it rain, make it rain, make it rain. So that brings us to delivering invention on partner and owned IP. And the three key pillars here reside in our girls, games and construction categories. We have a robust strategy to fortify our presence in the girls' category across key segments with both our own IP and strong properties.

I'm pleased to announce that our highest portfolio moves into the Toy Box for 2017 as we take a more holistic look at how we approach girls outside of core brands. Within the fashion doll segment, 2016 was really a tale of two cities. We continue to see challenges on Monster High with the bright spot being the performance of the dolls that return to the origins of the brand.

So for 2017 we will be staying true to the roots of this property with a focus on the original characters, music and nontraditional content. This brand came to life on YouTube, it was a UGC sensation. We return to that platform with a web series that brings us closer to the key characters and their families and our 2017 product line and feature items are tied to that narrative.

The clear highlight in 2016 came from a very close partnership and collaboration with Warner Bros. on DC Super Hero Girls. We mutually recognized the opportunity to bring the girl empowerment message forward with these dynamic and powerful super heroes and developed an award-winning





product line that is both strong and beautiful. It resonated and what you will see from us in 2017 is an expanded line that brings vehicle play and new characters into the mix.

Now along with our focus on driving both Monster High and DC Super Hero Girls in the fashion doll category, we are introducing a brand-new line inspired by a show airing on Nickelodeon called Kuu Kuu Harajuku. This property has a truly unique aesthetic and is the "dream come to fruition" for Gwen Stefani, built on the foundation of music and fashion, two platforms we know that girls will both aspire and relate to. Take a look at the sizzle.

(video playing)

The break frame look of this show has translated to breakthrough product for the aisle setting a new trend in that space.

As we move into the small doll segment, we were inspired by talking to girls to invent along the theme girls love most, pets. Bringing to life the unbreakable bond between a girl and her pet in a fantastical way. Let me introduce you to Enchantimals.

(video playing)

Here's a little of the interesting back story on this one. It was actually derived from an item developed for Ever After High, but it was clear from research that this was a bigger idea and opportunity. So in true Toy Box fashion we reacted quickly and our exceptional marketing, design and content teams developed the narrative to engage girls in a product that has true sell off the shelf appeal. Enchantimals launches in August 2017 with over 100 minutes of content to work across multiple social media platforms, influencer programs and an hour-long TV special.

Turning to games, our games business was a growth driver for us in 2016 as we delivered new games to the market like Gas Out. And we strengthened our key franchises like Uno with innovative marketing programs and new distribution opportunities. In 2017, we are going to surprise and delight the young and the young at heart with -- wait for it -- a squawking chicken.

(video playing)

We all know it's sometimes the simplest things that make the hit toys. This game generates infectious laughter at every squawk and is a great example of how Toy Box approaches invention, looking for the hit that will bring fun and excitement to the category.

Now invention doesn't only come in the form of product but also in our approach to marketing. In 2017 we are launching new branding in the fourth-largest super category globally, the construction category. In 2016 our MEGA business posted 6% growth in global POS and we solidified our position as number two manufacturer in this category.

As we are planning for continued growth in 2017 we have created a new brand framework which I teased you with the last time I saw you and I will reveal to you today. So let me talk you through some of the key insights that led us to this launch.

The first insight, Mega Bloks has really strong equity with moms of 1 to 3 year olds. But we lose equity in relevance once a child graduates out of that giant MEGA Blok. To address this challenge we have established a new branding framework that will allow us to build a presence for the brand at retail and differentiates our MEGA Blok business from our kids and collector business.

Let me build that out for you. You can smile. It's okay. MEGA will continue to be the unifying factor across the statement with two distinct sub brands to address our distinct target consumers. Mega Bloks will continue to be the brand for preschool, leveraging the equity endorsed by Fisher-Price and targeting parents.

We know this brand doesn't translate to kids and collectors, so we asked ourselves a really difficult but critical question - How might we develop a breakthrough construction brand for that audience that's meaningful in the category? In answer to the question, we are thrilled to be introducing Mega Construx which will be our branding for our kids and collector business.



Introducing the new brand framework is critical to establishing a credible section at retail, whether online or brick-and-mortar, and to our consumer communication plan. Our parent targeted Build Them Up campaign for Mega Bloks reinforces our position of child's first entry into building. Take a look at these two spots. The first is for preschool basics and the second is for our brand-new introduction of Thomas in this age-appropriate scale.

(video playing)

So our second key insight, which informs our communication plan for Construx, is that where we are truly differentiated in the marketplace is in the incredible detail that we deliver in sets and figures, truly dimensionalizing the characters, vehicles and locations that the fan knows and loves from the entertainment.

And while we face a formidable competitor with a proprietary form factor for figures, we know that consumers are drawn to Mega for the properties in our portfolio and how we bring their characters, their favorite characters, to life in authentic detail.

In fact, we like to say we are the brand for fans, capturing authentic and realistic detail in our buildable micro-action figures and willing to go that extra mile to deliver the brick that will allow you to re-create the story and build beyond to craft your own story. Here's a look at the brand spot we are currently running that started February 10.

(video playing)

Now to optimize this messaging our product spots for Mega Construx will also carry the branding message. Here is an example with our Halo spot.

(video playing)

As we continue to credential ourselves with consumers in this category, another key pillar is to ensure we have the properties in the portfolio that deliver on the Toy Box vision of being on the edge of what is now and what is next. To that end I am thrilled to announce that we are partnering with Pokemon on a line of Pokemon collectibles and play sets for the Americas.

You will see all the incredible and authentic to content worlds we have created in the gallery, so the last piece I will share with you here is our retail merchandising initiative.

We all know how critical store presence is in this category, and frankly, we have struggled in this area. Now it won't happen overnight, but we are working with our retail partners to execute this vision for the aisle that is experiential and engaging and clearly establishes Mega Bloks and Mega Construx as credible brands in the space.

We are expecting continued growth in this category in 2017, not only from the addition of exciting new properties, but also from the investment we are making in solidifying our number two position in the market.

Okay, so turning to our final strategy, optimizing our partner relationships, that's the cornerstone of the Toy Box and the next big statement in our gallery. We truly value and enjoy working with our partners at Nickelodeon in both preschool and construction. On the preschool front, we have a great momentum coming out of 2016 with the launch of Shimmer & Shine and continued strong performance of Blaze and the Monster Machines.

We have aligned with Nickelodeon on content to deliver exciting new drivers in 2017 including a whole new and adorable line of collectible Teenie Genies. And we are delivering incredible action in the driver for the Blaze line themed to the tentpole episode Wild Wheels. You are also going to see these power preschool brands in our Mega lines as well as Teenage Mutant Ninja Turtles in our Construx line, bringing to life that true to character buildable mini action figure.

Now talking about action figures, in the traditional action figure super category 2016 was a stellar year for Mattel with 31% growth in POS, which translated to a 4 point share increase, or a 16% share overall of the global super category. Now arguably our partner with the most unique entertainment model in this space, WWE, is a powerhouse of content and consumer engagement and is the anchor of our action figure business.



2017 is just the start of our plans to extend and expand beyond the current offering as we re-create the superstars, their titles and the rings where the action takes place in authentic detail. We are also continuing to expand our relationship with Universal, another critical partner for us, and 2017 is an exciting year of invention as we launch the Fast and Furious line timed to the release of the eighth installment of the Fast and Furious franchise, The Fate of the Furious. Take a look at this trailer.

(video playing)

That looked cold. This property has been a global phenomenon with over \$3.8 billion in worldwide box office, and we are thrilled to bring to market the stunts in action with our stars and cars strategy.

Now, we are equally excited about the third installment of the Despicable Me series. This property is as fun to work on in construction as the movies are to watch. And that comes through in the irresistible product you will see in the gallery.

Now talking about irresistible, our partners at Warner Bros. are in a league -- thank you, Dave -- of their own, and 2017 is sure to continue the momentum built in 2016 on the Batman versus Superman theatrical event.

Now the last time we met, I shared with you the absolutely kick-ass trailers from the two much anticipated 17 theatrical events -- Wonder Woman which releases June 2nd, and Justice League which releases November 17th. To celebrate the Justice League theatrical event, we have developed the most jaw-dropping Batmobile ever. Make sure you see it in the gallery, and trust me when I say that words cannot capture the intensity of emotion that this toy elicits from kids of every age.

Now I think you will agree that when it comes to appeal for kids of all ages, the House of Mouse is one of the strongest partners, and we are really fortunate to be working with them on several initiatives in 2017. We are already off to a strong start in preschool with the new Mickey and the Roadster Racers line that ties to the new TV series on Disney Junior.

We are also delighted to be partnering on an original new feature from Pixar called Coco. This film has a vibrant and unique story, look and score, as we follow our hero Miguel on his journey to bring music back to his small town. Our line brings to life the incredible aesthetic, music and characters from the film that are sure to stand out on retail shelves.

And then there is a little thing called Cars 3. Let's take a look at the trailer.

(video playing)

We have over a decade-long relationship with Disney on Cars, and we could not be more excited to be their global partner on this incredible property and bring this franchise and the newest installment to the story of Lightning McQueen and his hero's journey, along with a host of new characters to a whole new generation of kids.

We are not just talking about kids in Europe and the Americas where we have always had a robust Cars business, but expanding in a meaningful way to distribute in China, Russia and other key territories where the Mattel footprint has strengthened since the last feature film release.

Now as you saw from the trailer, Cars 3 gets back to the roots of this franchise, racing, and of course our toy line will bring to life key movie moments with incredible action and hours of play. But we also brought innovation and interaction to the line in new and different ways to engage and reinforce that emotional connection with the characters.

We still can't show you everything. There are some spoiler items not on display. But what you will see upstairs will illustrate why we believe that 2017 will be the strongest year ever for this franchise.

2017 is an exciting growth year for the Toy Box division, and we are poised to deliver against our key strategies with incredible theatrical events and entertainment and a focus on invention in new categories and new relationships.



Thank you, and I am now going to turn it back to Richard to do another introduction.

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**Richard Dickson** - *Mattel, Inc. - President and COO*

Well, if that doesn't excite you, I don't know what will. But I'm about to introduce somebody who actually is very exciting. So thank you, Susie. I think you are going to be really pleased with what you see upstairs in the showroom today based on Juliana and Susie's presentation.

Their teams create great products and programs, but it's really up to the commercial execution team to bring these creations to families all over the world. This team has undergone dramatic change to significantly increase its effectiveness in a rapidly growing and, as we saw in December, occasionally unpredictable marketplace.

We are investing in and will continue to pursue sophisticated new data resources and tools, and in partnership with retailers we are working together to best anticipate the changing consumer dynamics and behaviors that impact our business. And as a result, we've deepened our retail relationships, increased our shelf space and become much more agile, all of which ultimately benefits our customers, our partners and our business.

So here to share much more about commercial execution plans is the leader of that team, and I will introduce him as Steve Totzke. Steve, come on up.

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**Steve Totzke** - *Mattel, Inc. - EVP and Chief Commercial Officer*

Thank you. Truly exciting. I am last but I'm fast. Thank you, Richard, and hello everyone. I've been in this industry for 20 years now. As a matter of fact, this is my 20th New York Toy Fair. I have worked and led teams in multiple countries, multiple continents, multiple hemispheres all over the world, and I'm as excited to be here today as I was then.

When Richard and Dave asked me to speak to you today I first asked them, what would you like me to cover? You know, your observations about the industry, the retail environment, the evolution of the shopper and the selling process. It sounds great, I said. How much time do I have? 10 minutes. 10 minutes, I thought. Okay, and who will I follow? Susie. Susie with all her innovative product and high-impact partner sizzles. That's right. All right, I should be fine.

So over the next 600 seconds and no sizzles, let me provide you with a very high level overview of the shifts that we are seeing, and then more specifically what my teams are doing here at Mattel in order to keep leading the current and future excellence in retail execution.

First of all, there are certain universal truths in this industry that are time tested. Number one, product is king. Number two, kids and moms are still very brand-loyal consumers. And number three, parents want the very best possible start for their kids. I have seen these truths reinforced all around the world. A great toy here in Manhattan is a great toy in Mumbai or Moscow, Montreal or Melbourne.

And Mattel as the number one global toy manufacturer, as per NPD, has been delivering innovative product and play experience against these great brands that kids want all over the world for decades. This level of sustained market leadership is impressive, unprecedented, and really a testament to our talented designers and marketers.

Personally and quickly, in my opinion the number one toy in the history of the world is the Hot Wheels basic car. And not because it's the number one selling toy in the world -- but I do like that -- it's the multiple play patterns: collecting, competing, connecting, constructing, imagining. The design and authenticity is amazing. They are guaranteed for life and they've remained about \$1 in the US for years.

We had an all-time record year in 2016, thanks to Juliana and her team. Not bad for a brand that was 48 years old and is ramping up to celebrate its 50th Anniversary in 2018. I often wear a Hot Wheels T-shirt when I travel, and I'm constantly stopped by people. It could be a five-year-old boy or a 50-year-old man. When I tell them I work for Mattel, they want to tell me about their Hot Wheels passion.

Now if you have ever talked to a 50-year-old about his Hot Wheels journey, you will have no doubt that we are inspiring the wonder of childhood and creating emotional connections that last a lifetime. Very few brands can do this.

Another universal truth in this industry is that change is constant. We have seen change accelerate over the past few years: change in the innovation of our product, change in content, development and distribution, and certainly a change in the shopper path to purchase and the impact that is having on all of us and our retail partners. How we are understanding and thriving within that change is my focus today.

But first, let's look at this 1967 Forbes cover of a Rube Goldberg illustration of the future of home entertainment. This could literally be my living room today. Everyone is watching their own screen and their own personalized content. The girl is watching rock 'n roll on TV a full 14 years before the dawn of MTV. The little boy is watching his own kid content. Rube even nailed the ubiquitous cat videos on YouTube.

But there is still a toy car on the ground, and as the number one vehicle manufacturer on the planet, I can confidently and happily say he got that one right, too. Clearly we are experiencing significant disruptions across many fronts, including demand creation and retail execution. You can see the shift from brick-and-mortar to online over time, but the ramp over the past few years has accelerated as consumers get more comfortable with online shopping and retailers have improved the experience.

US e-commerce sales nearly doubled from 2005 to 2010, and then doubled again from 2010 to 2015, according to the US Department of Commerce. And like brick-and-mortar, Mattel was once again the number one online US toy manufacturer in 2016. This is according to the NPD group for consumer tracking against total toys by dollars.

According to Kantar, 77% of shoppers researched or purchased a gift online during holiday 2016. So you can imagine the majority of our conversations with our retail partners are omnichannel in nature. And as we help them navigate this evolution, we must shift. Mattel must be experts at the toy shopping path to purchase, in order to provide guidance and perspective at every stage.

Each year we conduct multiple shopper insight studies so that we have an in-depth understanding, both digitally and physically. From pre-shopping to shopping to post-purchase attitudes, each one of these bubbles represent an independent study to inform our joint strategies.

I blurred out the specific research due to the proprietary nature of the work. However, I can tell you from my experience that we have covered every critical stage in the shopper journey, and these have been very valuable formulating and refining our plans.

While I realize what I'm sharing with you today is somewhat limited due to trade secrets, but I will share in broad strokes what we are generally focused on: merchandising leadership, innovative and breakthrough programs, testing, learning and adjusting. As I mentioned, Mattel was the number one online US toy manufacturer, and this has not happened by accident. This is the result of our intentional focus to win online and to win omnichannel.

This focus includes hundreds of toys with robust digital assets, including search optimized names and descriptions, extensive photography and video availability, and review syndication. And we are testing everything from the effectiveness of specific promotional offers to unique and creative banner executions, retail media placements, consumer targeting, third-party database partnerships, basket billing solutions and a robust CRM investment. The list goes on and on.

And as many of you know, our global positioning in the e-commerce space is being greatly enhanced with our new strategic partnerships with Alibaba. But as you saw in the earlier slide, the vast majority of this business is still conducted in the physical store, and we have also innovated our insight utilization and data capabilities here.

Now I love innovation, and it is essential for progress. However, I tell my teams that you date innovation but you marry execution. Ultimately, our goal is to make sure we are executing flawlessly for ourselves, for our retailers, and ultimately for the consumer.



The most visible report card reflecting retail execution is still space, shelf space, promotional space and the stock levels in that space. I can tell you since the invention of the camera phone, I get a lot of live feedback on the state of our space, and our product placement and our inventory levels. I get comments from my customers, from my brand managers, from my boss, even from many of you.

And if feedback is a gift, I had a lot of Christmas mornings in Q4. Keep them coming, really.

Let me share some new news and new tools on how we are innovating to help optimize the space and distribution. Of course, we still begin with macro layouts, overlaying NPD data against categories and brands to ensure we are achieving productivity measures. But going back to that insight circle, we have so much more qualitative and quantitative data that we now utilize.

For example, we are conducting studies using eye tracking and heat mapping. It shows us key areas of the shelf and what draws moms' attention. What she's seeing and more importantly, what she's not seeing that allows us to make adjustments and retest. This has led to us to enhance our segmentation in key product placements, and we are seeing improved productivity across all of our sections.

Again, I can't get into too much specifics on this example due to the proprietary nature of the work and its application, but we have invested in customer data and the ability to analyze that data to identify opportunities across thousands of stores in the US. Insights, analysis, visualizations, are being used to identify win-win opportunities with our retail partners. We are literally using data that wasn't available before. We are combining it with science and hardware that also wasn't available before to break new ground in business management. It's truly amazing.

My final example and really where it all comes together is in our virtual planogram lab back in El Segundo. This might be my favorite new toy at Mattel. It's a virtual wall of screens representing a full-sized 24 section at retail. It allows us to collaborate with our retail partners to test multiple scenarios based on all of these insights regarding locations or facing or POP. We can provide real-time volume, profit, and productivity metrics.

It is also used by our marketing and packaging teams to test initial segmentation flows, brand blocking, or how a new package design or graphic would work in the context of the shelf set.

Okay, I don't have any sizzles, but let me show you the end result of this good work. Here is a Barbie reinvention with improved segmentation, signage, doll tubes. It's currently in the market today. Next one is a Barbie shop-in-shop that we launched in the fall of 2016, and we will be expanding this based on positive results. The shop-in-shop's success will also be extended to another one of our core brands, Fisher-Price, in 2017.

Hot Wheels gets optimized throughout the year across multiple channels. And finally, we provide the same level of research and retail execution excellence to our licensed partners to ensure we optimize these critical properties.

The teams are just getting started, and we are deep in research and testing the future state of toy retailing. What are the change drivers and what are the implications. And as I said at the beginning, change is constant, and like we have for 70 years, Mattel is leading the way.

Finally, and before we head up to look at the 2017 line, I wanted to add my personal comments on our year-end 2016 results. Yes, Mattel's fourth quarter financial results were negatively impacted by shifting consumer patterns. Timing is critical as you count down the weeks into the holiday period, and we made investment decisions in certain markets that we believe to be in the best interest of the Company as the situation evolved.

But keep in mind this industry grew again in 2016 in mature markets, in emerging markets, and when you exclude Disney Princess, Mattel did as well. We overcame a significant and unprecedented revenue gap in 2016. We did it with solid execution across our core brands, great support from key licensed entertainment partners, and dare I say fantastic commercial execution.

As Kevin mentioned, the ultimate goal is to have the right product in the right quantities in the right locations to satisfy the consumer. My teams are pretty much embedded with our retail partners during this time, monitoring daily results and making adjustments to achieve these goals.

I am confident that the industry growth in 2017 will be driven by Mattel. And as always, come Christmas morning, Mattel will have more toys under more trees inspiring more wonder than any other toy Company in the world.



Thank you and with that, I think we are going to go up and see our 2017 line. Thanks, everybody.

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