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MAT - Q4 2019 Mattel Inc Earnings Call

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Co. reported 4Q19 reported operating income of $68m.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Mattel's Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your host, VP of Investor Relations, David Zbojniewicz. Sir, please go ahead.

David Zbojniewicz - *Mattel, Inc. - Head of IR*

Thank you, operator, and good afternoon, everyone. Joining me today are Ynon Kreiz, Mattel's Chairman and Chief Executive Officer; Richard Dickson, Mattel's President and Chief Operating Officer; and Joe Euteneuer, Mattel's Chief Financial Officer.

As you know, this afternoon, we reported Mattel's 2019 full year and fourth quarter financial results. We will begin today's call with Ynon and Joe providing commentary on our results. And then we will provide time for Ynon, Richard and Joe to take your questions.

To help guide our discussion today, we have provided you with a slide presentation. Our discussion, slide presentation and earnings release reference non-GAAP financial measures, including gross sales; adjusted gross profit and adjusted gross margin; adjusted other selling and administrative expenses; adjusted operating income and loss; adjusted earnings and loss per share; earnings before interest, depreciation and amortization or EBITDA; adjusted EBITDA; free cash flow and constant currency.

Please note that the sales figures referenced on this call will be stated in constant currency. The information required by Regulation G regarding non-GAAP financial measures is included in our earnings release and slide presentation, and both documents are available in the Investors section of our corporate website, corporate.mattel.com.

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

We describe some of these uncertainties in the Risk Factors section of our amended 2018 annual report on Form 10-K/A, our 2019 quarterly reports on Form 10-Q, our earnings release and the presentation accompanying this call 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, except as required by law.

Now I'd like to turn the call over to Ynon.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

Thank you, everyone, for joining Mattel's Fourth Quarter and Full Year 2019 Earnings Call. Our results reflect a significant improvement across the business as we continue to make consistent, meaningful progress on our strategy to transform Mattel into an IP-driven, high-performing toy company. We remain focused on execution and are well on our way to achieve our goals to restore profitability and regain top line growth in the short to midterm and are on track to capture the full value of our IP in the mid- to long-term.

Mattel exceeded its 2019 guidance, significantly improving profitability and stabilizing the top line, a major accomplishment after 5 years of revenue decline.

Key highlights of the 2019 full year financial performance compared to last year include the following. Gross sales were flat as reported, including a negative $92 million foreign exchange impact and up 2% in constant currency. Adjusted gross margin was 44.9%, a 480 basis points improvement. Adjusted SG&A was reduced by $86 million. Adjusted EBITDA was $453 million, an increase of $253 million or 126%. Adjusted EPS improved by $0.85. Operating cash flow was $181 million, an improvement of $208 million. And we achieved positive free cash flow for the first time in 3 years, an improvement of $244 million.

In addition to this strong financial performance, we made significant progress in reshaping our operations and strengthening the balance sheet. We successfully completed the Structural Simplification program and reached $875 million of run rate savings exiting the year, exceeding our savings target by $225 million.

As part of the Capital Light program, in 2019 we closed 3 owned plants in Mexico, China and Indonesia. And we recently announced the closure of our manufacturing operations in Canada by the end of 2020.

In addition, we refinanced our next 2 debt maturities, improving our near- to medium-term liquidity and giving us additional financial flexibility.

Looking at full year gross sales in constant currency, we grew in 5 of the 6 categories where we operate. These include Dolls and Vehicles, where we are a global leader, as well as Action Figures, Building Sets and Games, where we are a challenger. And while our Infant, Toddler and Preschool category was down, we stabilized the largest component of the category, Fisher-Price Core.

We also performed well in the fourth quarter and grew in 4 of the 6 categories. As expected, gross sales were down 3% as reported, including a negative $12 million foreign exchange impact, and down 2% in constant currency.

From the perspective of our 3 operating segments, we increased full year Gross Sales in constant currency in both North America and International, while the American Girl segment declined as expected.

The latest market share data demonstrates Mattel's strong top line performance across the breadth of our categories and operating segments. According to NPD, Mattel remained the #1 global toy company in 2019. We outperformed the industry and increased global market share in the all-important fourth quarter. This speaks to the power of our brand portfolio, product innovation, and global commercial execution.

Moving to 2019 category performance. Dolls sales declined 5% in the fourth quarter, but ended the full year up 2%. The fourth quarter decline was primarily driven by American Girl. Barbie continued to demonstrate its resonance with consumers and its competitive edge and grew 3% in the quarter, making it the 9th consecutive quarter of growth. For the year, Barbie sales grew 9% to $1.2 billion, achieving the highest full year gross sales in the last 6 years. Barbie continues to perform very well with almost all product lines showing growth versus last quarter and last year.

As expected, American Girl declined in the quarter and the year, albeit at slower rates than in 2018. We continued to execute on the key pillars of the brand transformation strategy, which include evolving American Girl's website into a digital flagship, creating unique and ownable retail experiences at the flagship retail locations, developing a more robust product line architecture, and implementing a revised content strategy. We look forward to sharing more detail on the American Girl strategy next week in New York at Toy Fair.

The Infant, Toddler and Preschool category was down 9% in the quarter and 10% for the year, primarily due to the decline of Fisher-Price Friends. Fisher-Price and Thomas & Friends was down 3% in the quarter and for the full year, a significant improvement from last year's 13% decline. We saw continued improvement and stabilization of Fisher-Price Core, which was flat in the quarter versus a decline of 12% in the same period last year, and was down less than 1% for the year versus a decline of 10% in 2018.

In North America, Fisher-Price Core grew by 2% in the fourth quarter, and was flat for the year. We achieved this positive momentum thanks to the success of new innovative product lines and key marketing initiatives such as the Let's Be Kids brand campaign that has been very well received. As expected, Thomas & Friends continued to be challenged. The brand celebrates its 75th anniversary this year, and we strongly believe in this multigenerational franchise and its value as a global IP. We are actively working to simplify the product range as we step-up the turnaround initiatives.

The Vehicles category continued to grow and was up 1% in the quarter and 6% for the year. Global sales were driven by another record year for Hot Wheels, which eclipsed its prior all-time high in 2018 when we celebrated the 50th anniversary. Hot Wheels sales were up 8% in the quarter and 14% for the year. Growth was driven by multiple product lines, including basic cars and our new Monster Trucks line, which had a strong inaugural launch year.

Matchbox also grew in the quarter and the year as we continue to build out the Vehicles portfolio. It's worth noting that Matchbox was recently inducted into the National Toy Hall of Fame. Overall Vehicles category growth was partially offset by the expected declines of Disney's CARS and Universal's Jurassic World vehicles, post their movie launch years.

Action Figures, Building Sets and Games -- our challenger categories -- together grew 10% in the quarter and an impressive 15% for the year. Each of the 3 categories finished up double-digits for the year. Action Figures did very well, driven by Toy Story 4. Mattel's innovative product line and partnership with Disney's Pixar led Toy Story to finish the year as the #2 industry growth property in 2019, per NPD. The Jurassic World line, while down in a non-movie year, continues to perform and is establishing itself as the year-round evergreen dinosaur line in the toy aisle. Building Sets delivered another strong quarter and growth year. The MEGA turnaround plan is working, with a combination of product innovation, competitive pricing and expansion of global retail distribution. Games continued its strong growth, with sales up double-digits both for the quarter and for the full year. 2019 marked the 5th consecutive year of worldwide growth and the 6th consecutive year of growth in North America. Globally, UNO finished the year as the #1 card game property, and the #1 growth card game property, per NPD. The UNO mobile app has more than 85 million downloads since it launched a year ago and over 1 million daily players.

Beyond the financial performance, we are proud that our product innovation has been recognized by the industry. Barbie was named "Marketer of the Year" by Ad Age, and Creatable World was named as one of TIME Magazine's Best Inventions of 2019. We also received 12 prestigious "Toy of the Year" Award nominations from The Toy Association. This marks the highest number of nominations for the company ever and demonstrates that Mattel continues to lead the industry in pushing the boundaries with compelling toys and experiences that we bring to the market.

Moving to operating segment performance. We delivered strong results in both North America and International, with growth in every region compared to 2018. While North America declined 1% in the fourth quarter, it grew 1% for the full year, and International was flat in the fourth quarter and grew 6% for the full year.

North America performed well considering the competitive landscape, especially in the holiday season. According to NPD, Mattel gained market share overall and online in the fourth quarter and remained the #1 toy company in the U.S. for 26 consecutive years.

EMEA, our largest international region, continued to perform exceptionally well and outpaced the industry. While European retail in general continues to face challenges, our sales increased 2% in the quarter and 8% for the full year. According to NPD, Mattel gained share in Europe in both the fourth quarter and the full year.

Latin America sales were off slightly for the quarter, down 1%, and up 5% for the year. We gained share and maintained our #1 leadership position for the fourth consecutive year, according to NPD.

Asia Pacific was down 1% in the quarter, and up 3% for the year. We continue to make progress in China and across the region. We are seeing promising momentum in Australia, one of our key Asia-Pacific markets, where we gained market share for the full year, according to NPD.

As part of how we think about the future, we have been designing and restructuring an organization that is flexible, dynamic, and better able to respond to changing market conditions and exogenous factors that affect Mattel as well as the industry as a whole. With that in mind, in addition to the strong commercial performance in 2019, we have continued to make significant progress in reshaping and upgrading our operations.

The Structural Simplification program has been a resounding success, significantly outperforming our original targets. While we formally concluded the program at the end of 2019, its benefits will have a lasting impact on our business.

Taking a look at what we achieved in less than 2 years. We delivered over $875 million in run rate savings, $225 million or 35% more than our original target. We reduced non-manufacturing workforce by 29%. We cut capital expenditures by more than 60% from $297 million to $116 million, which is our lowest level of CapEx in more than 9 years, while we still made strategic investments of more than $150 million in the period. We made transformative improvements in our supply chain, including the implementation of an automated online ordering system, optimizing minimum order quantities, and using new predictive algorithms to improve demand and supply forecasting. We have also made progress towards reducing complexity in the system and eliminating unproductive SKUs. We expect a 30% SKU reduction by the end of the year.

As a result, over the 2-year Structural Simplification period, Adjusted Gross Margin improved 710 basis points to 44.9%, Adjusted Operating Income improved by $359 million, Adjusted EBITDA increased by $327 million, Adjusted EPS improved by $0.90, Cash Flow from Operations improved by $209 million, and Free Cash Flow improved by $389 million.

We also continued to make strong progress in 2019 on our mid- to long-term strategy to capture the full value of our IP. During the year, we announced 5 additional theatrical films and now have a total of 8 movies in development in partnership with major studios, highly regarded talent and leading industry players. These are: Barbie and Hot Wheels with Warner Brothers; View-Master and American Girl with MGM; Magic 8-Ball with Blumhouse; Barney with 59% and Valparaiso Pictures; Major Matt Mason with Paramount, Tom Hanks and Akiva Goldsman; and Masters of the Universe with Sony and an additional partner as part of a new structure. We will share more details in the coming weeks.

In the fourth quarter, we announced a second animated adventure series with Netflix, He-Man and the Masters of the Universe. This is in addition to the previously announced series, Masters of the Universe: Revelation.

And today, we are happy to announce that "Thomas & Friends" children's series will be available on Netflix in the United States starting this March.

In the coming quarters we expect to announce additional film and television projects in line with our strategy.

We also recognize our responsibility to be a global corporate citizen and positive environmental steward, which is a priority for the entire organization.

Last spring, we established an Environmental Sustainability Council dedicated to actively advancing our sustainability efforts in several areas, including materials innovation. In late 2019, we announced a new sustainability goal to achieve 100% recycled, recyclable or bio-based plastics materials in both products and packaging by 2030.

We are already making progress towards this goal. We recently announced 2 lines of Mattel's iconic products: Fisher-Price's Rock-a-Stack and 3 preschool building sets by MEGA BLOKS, all made from sugarcane-based plastics, and packaged in 100% recycled or sustainably sourced material. Expect more to come in this area.

In closing, while we continued to make strong progress in restoring profitability, this was also an important year in terms of sales performance. We managed to deliver top line momentum, maintain our global leadership position for the full year and increase our market share in the all-important fourth quarter. We have achieved this with a 29% smaller workforce, while reducing capital expenditures by more than 60% compared to where we were less than 2 years ago. This is a major accomplishment, and speaks to our renewed operational excellence, the quality of our assets, and the resilience of the organization.

Before I turn the call over to Joe, I would like to briefly comment on the coronavirus. As you're aware, the situation remains fluid, and we are monitoring any developments closely. Our thoughts are with those affected and we are taking all necessary actions to protect the health and safety of our team around the world.

With that, Joe will now cover the financials in more detail and provide guidance for 2020.

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Thank you, Ynon, and good afternoon, everyone. I would like to provide more detail on the fourth quarter results and summarize the full year performance, before moving on to our 2020 full-year guidance. As Ynon said, we did very well in 2019 and exceeded our guidance, significantly improving profitability and stabilizing the top line. We performed well in the fourth quarter and grew market share in this highly competitive period.

For the year, gross sales were flat as reported and up 2% in constant currency. And as expected, gross sales for the quarter were down 3% as reported and down 2% in constant currency.

Turning to POS, excluding TRU, for both the quarter and full year, total Mattel worldwide POS was flat. To give you a little more color on POS for our Power Brands, I'd like to share the following highlights.

Barbie Global POS was up high single digits in the quarter and double digits for the year. In North America, Barbie POS was up low single digits in the quarter and up high single digits for the year. Meanwhile, Internationally, Barbie POS was up double digits in the quarter and up double digits for the year. This marked the 15th consecutive quarter of International POS growth for Barbie.

Hot Wheels global POS was up double digits in the quarter and up high single digits in the year. In North America, Hot Wheels POS was up double digits in the quarter and up mid-single digits for the year. Internationally, Hot Wheels POS was up double digits in the quarter and up double digits for the year. This marks more than 15 consecutive quarters of international POS growth for Hot Wheels.

Fisher-Price Core global POS was flat in the quarter and down high single digits for the year. In North America, Fisher-Price Core POS was up low single digits in the quarter and down high single digits for the year. We are encouraged by the improved performance in the fourth quarter compared to the first 3 quarters. And internationally, Fisher-Price Core POS was down low single digits in the quarter and down mid-single digits for the year.

Moving on to retail inventory. Compared to the prior year, retail inventories were higher. We expect this could have up to a mid- single-digit impact to our first quarter sales. We believe that this inventory consists of healthy, carry forward product. The expected impact to the first quarter sales has been reflected in our full year revenue guidance that we will talk about shortly.

Fourth quarter Reported Gross Margin was 48.4% of net sales, an increase of 180 basis points versus the prior year. Adjusted Gross Margin was 48.9% of net sales, an increase of 230 basis points versus the prior year. For the full year, Reported Gross Margin was 44%, an increase of 420 basis points versus the prior year. Adjusted Gross Margin was 44.9%, an increase of 480 basis points versus the prior year. These significant improvements in Reported and Adjusted Gross Margin for the quarter and full year are directly attributable to Structural Simplification and accelerated savings from Capital Light, partially offset by product cost inflation.

Moving on to advertising. Fourth quarter advertising expenses totaled $227 million, or 15.4% of net sales. This compares to 13.5% in the year-ago period. The year-over-year increase was due to strategic advertising investments in the quarter, as we discussed on the third quarter call.

For the full year, advertising expenses were $552 million or 12.2% of Net Sales, in line with our guidance.

Reported SG&A for the quarter was $418 million, an increase of $20 million versus the prior year. The increase was primarily driven by a $26 million asset impairment charge and higher merit expenses, partially offset by Structural Simplification savings.

The asset impairment was a non-cash charge related to the continued declining performance of our American Girl retail stores, albeit at a slower rate of decline. We also incurred an additional $3 million of expenses associated with the inclined sleeper product recalls in the quarter. For the year, we incurred $10 million of recall-related expenses in SG&A and a total of $38 million across the P&L, before taking into consideration the $30 million to $35 million of revenue reduction.

Adjusted SG&A for the quarter was $384 million, a decrease of $9 million versus the year-ago period. Structural Simplification savings were partially offset by higher merit and other in-period expenses.

For the year, Reported SG&A was $1.4 billion, a $119 million decrease versus the prior year. The decrease was driven by Structural Simplification savings, lower severance and restructuring expenses, and the absence of the 2018 TRU liquidation. These were partially offset by higher incentive and merit expenses, asset impairment charges, and recall-related expenses.

Adjusted SG&A for the year was $1.3 billion, a decrease of $86 million versus the prior year. Similar to the fourth quarter, Structural Simplification savings and the absence of the 2018 TRU liquidation were partially offset by higher incentive and merit expenses, and other in-period expenses.

For the quarter, Reported Operating Income was $68 million, a decrease of $38 million versus the prior year. This decrease was due to lower sales and higher advertising and SG&A expenses, partially offset by gross margin improvements.

Adjusted Operating Income for the quarter was $109 million, a decrease of $2 million versus the prior year due to lower sales and higher advertising expenses, partially offset by gross margin improvements and lower SG&A expenses.

And for the full year, Reported Operating Income improved by $274 million to $39 million compared to last year's Reported Operating Loss of $234 million.

Adjusted Operating Income for the full year improved by $269 million to $156 million compared to last year's Adjusted Operating Loss of $113 million. For the year, the increases in Reported and Adjusted Operating Income were primarily driven by higher gross margin and lower SG&A expenses, partially offset by higher advertising expenses.

For the quarter, Adjusted EBITDA was $185 million, flat to the prior year. Structural Simplification and Capital Light savings were offset by higher strategic investments, lower sales, product cost inflation, and other SG&A expenses.

For the full year, Adjusted EBITDA was $453 million, a significant improvement, more than doubling last year's Adjusted EBITDA of $200 million. Structural Simplification and Capital Light savings and the absence of the 2018 TRU liquidation were partially offset by product cost inflation, strategic investments, higher incentive compensation, and merit expenses.

Moving to taxes. Last year, we discussed the challenge in estimating our full year tax expense given the changes in the U.S. and global tax laws, and the impact of valuation allowances, primarily against U.S. deferred tax assets. In 2019, we benefited from favorable discrete one-time tax items, including the release of foreign valuation allowances and the reassessment of certain tax liabilities. As a result, our 2019 tax provision was much lower than anticipated, with $9 million booked in the quarter, and $55 million booked for the year. Please note that going forward, our overall effective tax rate may vary significantly from quarter-to-quarter, due to the level and mix of income or losses in our foreign jurisdictions and due to the full valuation allowance on our U.S. deferred tax assets.

In terms of cash flow and balance sheet. As Ynon said, the main highlight for the year is that we achieved positive Free Cash Flow for the first time since 2016, improving by $244 million versus the prior year. Operating Cash Flow also ended the year positive, finishing at $181 million, or an improvement of $208 million.

Additionally, net Accounts Receivable held steady at 57 days sales outstanding, which is flat versus last year. Owned Inventory continued to decrease, down $47 million versus the prior year. We continue to work to optimize inventory levels with our retail partners. And Capital Expenditures, which totaled $116 million for the year, decreased 24%, compared to $152 million last year, primarily as a result of reduced tooling costs. These savings were achieved while still investing in the business. We ended the quarter with no short-term borrowings under our ABL credit facility. And finally, our previously announced refinancing of our 2 debt maturities, and the extension of our ABL maturity date, significantly improved our near-term liquidity, giving us additional financial flexibility going forward. Our next debt maturity is now not until 2023.

The primary reason for our significant improvement in profitability has been the success of our Structural Simplification program. And while we have concluded the program, we will continue to make progress in reshaping our operations and benefit from the run rate savings realized to date and going forward. For the year, we realized $366 million of P&L savings with $333 million of that reflected in our Adjusted EBITDA.

Over the 2-year program, we delivered $875 million in run-rate savings, $225 million more than our original goal and $21 million more than the $854 million of run-rate savings we reported on our third quarter call.

In 2019, we accelerated the execution of a portion of the Capital Light program, and realized $15 million of savings in the 2019 P&L. We will continue to share key developments as they are executed, subject to competitive and confidentiality considerations.

In the fourth quarter, we continued to make Strategic Investments to grow the business and improve future profitability. For the full year, we invested $88 million, of which $63 million, or 73%, impacted operating expenses, with the remainder as CapEx. Investments in the quarter were primarily related to advertising investments and IT transformation initiatives.

Over the 2-year program, we invested $151 million out of a target of $170 million on Strategic Investments. This was approximately split 35% on IT investments, 15% on digital advertising, 15% on local business investments, and the remaining 35% on other investments such as product innovation and content development.

Closing out my 2019 remarks, it is clear that we've made substantial progress across all key financial metrics, and we expect this momentum to continue into 2020.

Before we move on to 2020 guidance, given the dynamic circumstances of the coronavirus, please note that the guidance we are going to share with you today excludes any potential impact of the coronavirus on our results.

Now turning to our 2020 guidance. For the full year, we expect: Gross Sales as reported to grow 1% to 2.5% including a minor foreign exchange impact; margins to expand as we continue to reshape our operations and benefit from our Structural Simplification and Capital Light programs; Adjusted EBITDA to grow to an expected range of $575 million to $600 million; and operating and free cash flow to continue to grow along with our cash balance.

Let me provide some more detail on our 2020 guidance assumptions. The 1% to 2.5% sales increase is driven primarily by mid-single-digit growth in our owned brands, partially offset by declines in licensed brands. At a higher level, our category assumptions in constant currency are as follows:

We expect continued growth in the Dolls category, driven primarily by Barbie as the brand continues to innovate and build momentum globally coming off the 60th anniversary. We are planning to expand the rest of our doll portfolio with a number of new offerings throughout the year. The growth in the category is forecasted to be partially offset by American Girl. We are looking to reduce the rate of revenue decline at American Girl in 2020 as we continue to turn the business around.

We expect continued growth in the Vehicles category, driven primarily by Hot Wheels momentum as well as Matchbox, which should benefit from this year's "Top Gun: Maverick" die-cast license. The growth in the category is projected to be partially offset by declines in entertainment licenses.

We expect the Infant, Toddler and Preschool category to be down slightly versus the prior year. Fisher-Price and Thomas & Friends is forecasted to be up driven by growth in Fisher-Price Core, the largest component of the entire category. This is expected to be partially offset by a smaller decline in Thomas. Fisher-Price Friends is planned to continue to decline, as we choose to exit underperforming licenses within the portfolio.

And we expect our combined Action Figures, Building Sets and Games categories to be down slightly. We anticipate Action Figures to be down as a result of Toy Story 4 moving further away from its theatrical release and the end of our DC Action Figure license, offset partially by growth from Minions and Minecraft. We expect to see solid growth in Building Sets as we continue to refine and innovate the line architecture, optimize pricing, and continue to expand our global retail distribution. Games is forecasted to be up as we innovate and introduce new games and continue to leverage our existing portfolio. And finally, we will be launching our Plush business within this challenger category with licenses for Minions, Disney/Pixar, and Star Wars including the much-anticipated "Baby Yoda".

Turning to the rest of the P&L. Sales Adjustments are forecast to be in-line with the prior year on a percentage basis. We expect Adjusted Gross Margin for the full year to be 150 to 200 basis points higher than the full year 2019. This improvement will be driven primarily by realization of the remaining run-rate savings from our Structural Simplification program and incremental savings from our Capital Light program, as well as a reduction of royalty expenses. These benefits will be partially offset by product cost inflation of about 100 basis points and the negative impact of foreign exchange.

Advertising expenses are expected to be flat as a percentage of net sales versus the prior year, and within our normalized range of 11% to 13%.

Adjusted SG&A is projected to be lower year-over-year by approximately $30 million to $50 million. The primary drivers of the year-over-year improvement are the realization of the remaining run rate savings from our Structural Simplification program, as well as lower planned incentive compensation as we reset our operational performance targets for 2020. These favorable impacts will be partially offset by annual merit and benefit increases, along with general inflation.

With expected revenue growth, margin expansion and lower SG&A expenses, we forecast Adjusted Operating Income for the full year to significantly improve versus the prior year.

Looking below operating income, we expect Interest Expense to be relatively flat to 2019. Tax expense for the year is expected to be approximately $75 million to $100 million, reflecting better operational performance and assuming no discrete tax items compared to 2019.

In order to help build your "as reported" models, let me provide the following information. Depreciation and Amortization is expected to decrease as a result of our Structural Simplification and Capital Light efforts over the past few years. Share-based compensation is also expected to decrease to approximately $50 million. Severance and Restructuring expenses are planned to be roughly flat at $60 million as we continue to reshape our operations. Costs related to our 2019 incline sleeper product recalls will be included in adjustments between EBITDA and Adjusted EBITDA, which is consistent with last year.

In summary, we expect our Adjusted EBITDA to increase from $453 million in 2019 to a range of $575 million to $600 million in 2020. The primary drivers are the realization of $92 million of carryover Structural Simplification savings from 2019, approximately $50 million of Capital Light savings, as well as revenue growth and lower incentive expenses, partially offset by inflation increases, merit expenses and the negative impact of foreign exchange. This marks a significant increase over 2019 and another indication of our commitment to restore profitability.

Turning to the balance sheet and cash flows. Capital expenditures are forecasted to be up year-over-year. We expect Net Working Capital to be roughly flat compared to 2019. And we expect Operating Cash Flows to continue to improve and we project a second consecutive year of positive free cash flow. This increase in cash generation will improve our financial standing, including strengthening the balance sheet, improving our leverage ratios and giving us additional financial flexibility.

You should consider the following factors that will impact quarterly phasing of expenses but will not impact full year guidance.

Starting with the advertising expenses. As a result of a system implementation to track advertising at a greater level of detail during the interim periods, we have improved visibility into the anticipated timing of advertising expense. As a result, we expect to see a moderate shift in advertising expense to the second half of the year from the first half of the year.

Incentive compensation is planned to be lower in 2020. As we have in prior years, we will continue to adjust the incentive accrual each quarter based on our expected performance for the full year. Given our more consistent results in the past few years, this may result in a higher accrual during the first 2 quarters. As a result, we expect to see an increase in SG&A of approximately $15 million to $20 million in the first and second quarter due to this change, but lower overall for the full year.

Additionally, you should consider the following factors that will impact the quarterly phasing of our 1% to 2.5% full year revenue growth.

As I mentioned before, the increase in our retail inventories could have up to a mid- single-digit impact to our first quarter sales, but the full year impact has already been reflected in our full year revenue guidance.

We also have a later theatrical release date for the Minions movie compared to last year's Toy Story 4, which is expected to decline post its theatrical release year.

I want to reiterate that the guidance we just provided excludes any potential business impact of the coronavirus. With that said, here's what we currently know.

While consumer sales in China are currently being impacted, given that our in-country revenues represented only 2% of total Mattel revenues in 2019, the potential impact of lost China consumer sales on the company should be limited.

As it relates to our supply chain, while none of our manufacturing is located in the Wuhan province, the ability of the manufacturing workforce to return to work after the Lunar New Year holiday is being impacted by government guidelines. Mattel's factories and those of our third-party vendors were originally scheduled to resume production on February 3. Currently, manufacturers are being advised to not resume production until February 17.

At this point in time, we do expect production delays in Q1, which may impact first quarter results. But remember that, historically, Q1 is a seasonally small quarter for both production and revenue.

We have in place a global team that is actively working on contingency plans to mitigate the potential impact to our supply chain, customers, and employees. We are taking steps to minimize this disruption, including resourcing priority SKUs, balancing owned inventory across geographies, and optimizing transportation.

The full magnitude of the impact of the coronavirus on our full year results will be primarily determined by the duration of the outbreak.

We will continue to assess this fluid situation and update you as appropriate.

In closing, in 2019, our methodical execution of our strategy to restore profitability, generated significant improvements across key metrics, including margins, operating income, EBITDA, and cash flows. Our 2020 guidance reflects a continuation of these improvements. We are extremely pleased with our results to date and are very proud of the efforts made by the Mattel team.

With that, I'll turn it back over to Ynon.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

Thank you, Joe. In conclusion, 2019 was an important inflection point in our turnaround. We stabilized our top line after 5 consecutive years of revenue decline, continued to significantly improve profitability, and achieved positive free cash flow for the first time in 3 years. We are very encouraged by the consistent progress the company is making and expect to continue to build on this momentum. We remain focused on the execution of our multi-year turnaround strategy to transform Mattel into an IP-driven, high-performing toy company and create long-term shareholder value. I look forward to seeing many of you next week at New York Toy Fair and sharing additional details on our strategic road map going forward.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Michael Ng of Goldman Sachs.

Michael Ng - *Goldman Sachs Group Inc., Research Division - Research Analyst*

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I just have 2. The first is on the $50 million of Capital Light savings for 2020. Does that just account for the factories that you guys have closed this year, including the Canadian factory? Or do you expect more to come? And then second, just as a bigger picture question. Where do you see your mid- to long-term EBIT margins going over the next few years?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Sure. In regards to your first question on the factories, the $50 million includes the 3 factories we've already shut down. There's partial savings from Canada, but the full savings won't happen until 2021 when it's fully shut down.

And then on the next one, in regards to margins, you see the improvement we made in 2019 getting to basically 45% and talking to you about another 150 to 200 basis points improvement going into 2020, we are on that trend to try to get it up to the high 40s as much as we can. So we've said that consistently and I think you've seen the progress to date.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

And Michael, I would add that we said before that we're looking to restore historical performance levels for the company. We haven't put a timeline on it, but this is the direction we're heading towards.

Operator

Your next question comes from Drew Crum of Stifel.

Andrew Edward Crum - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

Just your commentary on retail inventory. Any brands or regions you can speak to where you're seeing elevated level? And then separately, just -- you're making progress with operating cash flow and projecting further improvement for 2020. Can you remind us or discuss what the priorities for use of the cash are going forward?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes, sure. In regards to the retail inventories, we're very comfortable with our retail inventory position, given our POS. There's really not any -- we've been -- we have such great partnerships with our retailers that we have all good inventory out there. So not really any 1 pocket. In regards to -- your second question was in regards to investments?

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

Usage of cash.

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes, uses of cash. I mean, look, the big thing is we have continued to invest back into the business, full automation, Ynon has mentioned what we've done in supply chain. We've talked to you about what we've done for our designers, global procure-to-pay, things like that. In addition, the second thing is, we want to continue to try to de-lever the company and try to get back to investment grade. So I think those would be our 2 primary uses of cash in the short term.

Operator

Next question comes from Tami Zakaria of JP Morgan.

Tami Zakaria - *JP Morgan Chase & Co, Research Division - Analyst*

So my first question is more bigger picture. Could you share your thoughts on the outlook of the U.S. toy industry? And do you think the toy industry can grow in 2020 following a couple of years of declines? And then my second question, related to POS. Could you provide some color on POS trends that you're seeing quarter-to-date, maybe for some of your major brands like Barbie and Hot Wheels?

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

Yes. Hi Tami, this is your first call, so welcome. So our view on the industry is that the fundamentals look -- going forward remain very solid. The industry was down in 2019. There were a few specific factors that impacted the year. The first one happened in the first half, where we comped the 2018 Toys "R" Us liquidation that drove the first half of '19, down 6%. The third quarter was up, driven primarily by Toy Story, our own Toy Story and some other hot properties. Fourth quarter was down 3%. And the reason for that, we believe, was driven primarily by the shorter holiday season as well as a smaller number of new big launches. So this is really what impacted 2019. If you look at some of the research out there and, to be fair, it's not -- it's as of June or July of last year, so it's not completely current. But Euromonitor put out a pretty comprehensive study that we referred to. They looked at 32 countries that make about 80% of the global industry. They've done in-store checks, in-region analysis. They talk to retailers, to consumers. They looked at macroeconomic data. They have insights from various constituencies. And they say they think that the industry will continue to grow at 4.6% CAGR for the next 5 years. They did not obviously factor the coronavirus, so you've got to put an asterisk on that. But fundamentally, we believe the industry is in a solid position, and we expect it to continue to grow.

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

Tami, this is Richard. Again, welcome to the call. I'll pick up the POS question that you had. Overall, we outperformed the industry and increased global market share in the fourth quarter. We really were very pleased overall in our portfolio with POS. There were some real stars. Of course, Barbie really had a fantastic year in POS as well as Hot Wheels. These are 2 of our key brands that have had consistent momentum. But across the board, we're feeling consumer takeaway very strong, very confident in our lineup of 2020 and, certainly, our performance in '19. So we look forward to sharing a lot more detail with you strategically and in the gallery, where you'll really see the products coming out for 2020, and we can answer more questions there specifically.

Operator

Our next question comes from Arpine Kocharyan of UBS.

Arpine Kocharyan - *UBS Investment Bank, Research Division - Director and Analyst*

I have 2 very quick ones. Could you help me understand why is inventory at retail up if shipments were down in Q4 versus POS that was flat? And then I have a quick follow-up.

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Sure. So look, first and foremost, our sales were -- in Q4 were as expected, as we talked to you about on our third quarter call. And if you go back to Ynon's remarks, he discussed the fact that we've made a tremendous amount of investments in our supply chain, which leads to better forecasting. That better forecasting accuracy has led to our inventory declines, and given the partnerships that we have with our retailers on joint business plans, we believe the inventory levels at retail are at the right levels, given the POS that we have to date.

Arpine Kocharyan - *UBS Investment Bank, Research Division - Director and Analyst*

Okay. That actually takes me to my follow-up, which I think was asked, but I'm going to try to ask it again. Any additional color you could provide on POS so far into the quarter? And I'm also particularly interested in sort of how you're going to potentially navigate what could be a supply chain disruption in terms of Easter volumes? Whether that product is already at your warehouses? Or how are you going to navigate that going into -- looking into sort of early April and prior to that, obviously, because you need to ship the product prior to that?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Right. So look, we haven't really given any guidance in regards to how January is doing, et cetera. At Toy Fair, we'll talk to you about strategically. But look, we've had great performance exiting 2019, and we believe 2020 is going to be a good year. In regards to the disruption with the coronavirus, I mean, look, it's still -- we have -- it's a wait and see. The 17th is the beginning of next week, we can see if production starts. If it doesn't, then we have -- we're looking for alternative plans. We just have to give you an update that once we have more information.

Arpine Kocharyan - *UBS Investment Bank, Research Division - Director and Analyst*

Okay, okay. And then I have a very, very quick follow-up. I just wanted to look a little bit closer at the top line guidance. I think Toy Story is, obviously, tougher comps, by my calculation, at least about 2 points of headwind year-over-year. And then you're obviously guiding Fisher-Price will continue to decline, but decline less for the year. Doesn't that mean that you need better than 2% to 3% increase in Dolls and Vehicles combined to get to around 1% or 2% growth for the year? I guess could you dissect a little bit that math?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Well, look, I think you're trying to get to the unbundling of it. But remember, the Owned Brands that we have, we gave you the guidance that they'd be up mid-single digits. And what that means is what you pointed out, which is on the licensed properties that -- those are the ones that are creating the negative impact. A great example would be Fisher-Price Friends. We've said that we've been exiting some of those nonperforming licenses. So it's things like that, that creates the negative drag. But when you look at the Owned Brands, they're delivering solid mid-single-digit growth.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

And this is a really important point. That our Owned Brands are expected to perform well, mid-single-digit growth of our own brands is a very good foundation, and we are very happy with that to get started. And I would refer you to Slide 28 in the deck. We broke out in pretty good detail the various components of the gross sales drivers. And we believe we are set well to achieve this in 2020.

Operator

Our next question comes from Tim Conder of Wells Fargo Securities.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Gentlemen, thank you for the more detailed guidance. I think everyone appreciates that and looking forward to the 21st and maybe a little bit more color on the 3-year or so type of outlook, if you would. From that perspective, I want to focus on the Capital Light. I know, again, there's sensitivities in negotiating things within governments and a lot of things from that perspective, political things and considerations. But how should we look or think about where your end game is? In the press release with MEGA, you talked about that some areas, and you've alluded to this before, maybe in diecast that it makes sense to keep it. Can you kind of maybe bucket a little bit more what you're maybe thinking about keeping? And maybe the potential where you see additional EBITDA savings, what that range or something on that number could be from Capital Light? And then I have 1 other follow-up.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

Yes. So Tim, as we said, we are making transformative changes in our supply chain. The concept is to be able -- is to simplify, modernize and design a more progressive, more flexible, more adaptive, more mobile infrastructure that would allow us to optimize market conditions and our own requirements. We do have a plan. We're executing towards the plan. As you noted, we haven't disclosed the plan for different reasons. But you can see that we are tracking well. At this point, we have closed or consolidated 4 plants and more is coming. With that, we also said that some -- in some cases, without being dogmatic about things, we take a view, and in certain situations, we will retain certain capabilities that are unique, such as the Hot Wheels factory as one example. We're not going to be able to share more detail. But you can rest assured that we are making progress. You will see more savings, more benefits coming through. $50 million already expected based on the actions we already announced in 2020, and there will be more benefits that will come our way. And you'll have to bear with us and see the progress in the making.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay. Okay. And then maybe back to some of the previous questions on the build for '20, specifically in Dolls owned. Whoever wants to take this, maybe, Richard, I don't know. Barbie, how are you -- what are you planning with Barbie to go against, obviously, a great run that Barbie's had here? And then -- and of course, Frozen, I think will have a pretty good year in '20, given that it's only kind of came out in Q4. But just any color around that, gentlemen, would be helpful, I think, for most people.

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

Tim, thank you for asking that question. We are incredibly proud of the work that we've done on Barbie. As you know, this is now going to be our ninth consecutive quarter of year-over-year growth. And, in fact, it's the highest sales number that we've had in 6 years. So we are confident in the foundational programs that we built for Barbie and are continuing to grow upon strength. This year was a terrific year for Barbie. And as you all know, it was one of the most competitive doll years out there. Certainly, entertainment-driven, and as usual, highly competitive with new doll entries and, certainly, the customers voted on Barbie.

Most of our segments performed exceptionally well. Obviously, the diversity and inclusivity from Fashionistas continues to be an incredibly important pop culture conversation. It's not only generating a lot of purpose, but profit. We're incredibly proud of the career segment, inspiring girls to be anything they want to be. And the innovation that we've proven that we can do with Barbie, not only from a marketing perspective, but from a product perspective is really being highlighted now. We introduced a new blockbuster item called Color Reveal and it's continuing to generate incredible excitement. So we've got great buzz and great momentum going into 2020 the right way. I'm really excited to show everybody what we're doing in Toy Fair. I hope you'll all be there because we'll expose all of our exciting products and strategic narratives.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay. And then, just a little derivative, I apologize. BTS, any comment on how that did in 2019 for the company?

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

Yes, BTS was an exciting launch for us. It actually performed well in the context of our expectations. If anything, it also proved the speed and nimble reaction that we could have as an organization going after the right pop culture narrative, speed to market with incredibly exciting looking dolls. We are continuing with BTS. There's lots of other news that will come down the pike. But we were pleased with BTS and our overall portfolio performance. As we move away from some of the year-over-year comp issues, 2020 is poised for meaningful growth and a great new innovative product pipeline that you'll see in Toy Fair.

Operator

Our next question comes from Gerrick Johnson of BMO Capital Markets.

Gerrick Luke Johnson - *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*

A couple of product questions, I guess, for Richard here. First, a couple, I'd call, more riskier launches were Hot Wheels id and Creatable World, maybe you can comment on how those performed? And then Baby Yoda, you're very quick to have plush available for presale on Disney -- shopdisney.com. And I wasn't aware you had a Star Wars plush license. Can you talk about how you executed on that product line?

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

Sure, Gerrick. First, let me just take a victory lap here on Hot Wheels. This brand is continuing to perform. 2019 was the biggest Hot Wheels year ever. It's the sixth consecutive year of POS growth both in the U.S. and globally. This is a story of complete innovation, both from a marketing and demand creation perspective as well as product. The digital demand creation evolution that we've had moving more to linear and -- from linear to digital has proven incredibly successful. We've done experiential marketing with a Hot Wheels Legends Tour, introducing monster trucks as a new segment with a live experiential show and a variety of other really exciting narratives for Hot Wheels that has proven incredibly successful. Some of the great new product that we introduced in '19 like Hot Wheels Mario Kart toy line was the biggest new license launch since Star Wars in 2015. We're going to continue to surprise consumers and all of you with the product that we have lined up that you'll see as we move into Toy Fair for 2020. So lots of really great momentum to build upon for Hot Wheels.

Moving to a Creatable World, which, as you know, was really another very big milestone moment for the company, again, kind of proving our leadership in the doll category. We got over 2.3 billion impressions with the narrative of Creatable World and over 90% of that was positive. We felt really good about the leadership statement that we made with Creatable World, and it's had pockets of exceeding expectations in some cases and meeting expectations in others. We're continuing to refine and define this new and exciting play pattern and segment, and you'll hear a lot more about that as well as we get to Toy Fair.

Last, but certainly not least, is The Child, which, of course, we call Baby Yoda. A really thrilling moment for Mattel to be first in the marketplace with this incredibly innovative designed amazing, obviously, toy. The speed at which our design, development and entire team reacted to the product, working very closely with our partners, proved itself again as Mattel only can do. We're really excited about not only Baby Yoda and The Child, but the entire plush category overall; not only with Star Wars, but with other partners that we'll reveal at Toy Fair. We're really on a roll with it, and I can't wait for you to see it when we get there.

Operator

Our next question comes from Linda B. Weiser of D.A. Davidson.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Sorry if I missed it, but did you guys give a specific capital spending guidance number for 2020? And also, even if you were to significantly increase your free cash flow in 2020, it still wouldn't put a very big dent in your sizable debt load. Is there any group of maybe some smaller brands that are not growing that you would consider divesting to be able to use proceeds to accelerate debt paydown?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

So the answer to the first part of your question, if you go to Page 31 of the deck we sent you, you see that we have capital expenditures in around the $125 million to $150 million range. In regards to properties, we are very confident in our portfolio of IP. And so we don't think that there's anything right now that would do that. And remember, when you're thinking about our EBITDA debt load, there's 2 things: One, the cash that we'll be generating, so you'll start being able to do a net debt calculation; and second, the growth of EBITDA that brings down our leverage ratio.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

And Linda, we talked about it before, with every day that goes by, we are improving our profitability and improving our cash position. We already drove very significant improvement in leverage ratio that will continue to get better this year. And as we said before, as it stands, we don't have any debt maturities until March of 2023, and that maturity is $250 million. So we have a lot of flexibility in the short-to-mid-term, let's call it, and getting on stronger financial footing with every day that goes by. So there is no reason to sell any of our assets. These are growth drivers, including the declining properties. They are all growth drivers and we're turning them around. Don't forget that just a little over 2 years ago, Barbie was in decline and it just reached its highest year in revenue after 6 -- in the last 6 years. So we believe we're sitting on a treasure trove of our assets -- of assets of great IP and this will be part of our success in the mid-to-long-term. So we're executing diligently, and you will see the results in the numbers.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Great. And can I just follow-up on the coronavirus issue. Our understanding is that when the workers travel to the factory locations that they actually do need to be quarantined for 2 weeks after their arrival date. So is it really 2 weeks past February 17, that production is going to start?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

No. To the best of our knowledge and talking with our people there that production would start on the 17th.

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

And we actually have people in the factory getting things ready, et cetera. So you know how you stagger it in. So yes, right now, we're planning on starting on the 17th, unless the government puts out another guideline.

Operator

Our next question comes from Eric Handler of MKM Partners.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

I've got 2 questions. First, MEGA seems to just have been found a really good stride last year. And I wondered if -- when you look at the Action Figure, Building Sets and Games segment if you just parsed out MEGA last year, what would that growth be for that business? And what sort of drove that growth? How much of that was licensing? How much of that was just sort of the core block business? And I'll follow-up with a second question after you answer this one.

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

Thanks, Eric. It's Richard. Thank you for recognizing the momentum that we've got in MEGA. It's been a great turnaround story as we refocused and established ourselves as a true challenger. And taking that challenger mindset and position, driving a really right product at the right place in order to regain share in the construction category. Just as a reminder, the turnaround plan really focused on setting up the right inventory to get those increases in POS, and we delivered. 2019 was a good year in the construction category for us with MEGA and we will continue that momentum as we build upon strength in 2020. There is a great new campaign that we're going to be revealing for you and everybody else in Toy Fair, that is going to really identify MEGA with a point of difference that we're pretty excited about. The licensing piece of MEGA, while we don't break out the specifics of it, continues to be an important part of the brand. HALO game launch ramp-up is really one of the key brands for us. We've got some great momentum, of course, with Pokémon. And then, some new innovation that you're going to see in the MEGA BLOKS category with something called Peek-a-Blocks, which is a great new product that's going to have specific content and media around it. So look, we can talk a lot about MEGA. I would rather save a lot of it when I walk you through the gallery and share our strategic point of view when we get to Toy Fair, but all going in the right direction.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

And just to add on that, in regard to your question on growth, we did say -- I did say in my prepared remarks that each of the challenger categories grew double digits last year, in 2019. And in parentis, I can say that a lot of it goes back to the core strategy of running the company by category as a holistic portfolio. We'll talk about that more at Toy Fair, but this is driven by this new structure where we're able to grow each category with its own dedicated strategy, leadership team and an anchor brand that solidify the momentum.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

That's helpful. Now in contrast to MEGA, we still have a lot of issues with Thomas. And I'm wondering, is there anything structurally that has changed in the play pattern with trains. It just seems like just a consist -- historically a very consistent play pattern for kids, particularly boys. And I'm just trying to figure out what has changed there that has kept that what was seemingly a very strong brand just on a downward path for the last several years?

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

Yes. Thanks, Eric. Truth is, and we've shared this, the Thomas trend is a self-inflicted wound. We have acknowledged, frankly, a challenge with this brand, particularly in association with how we drove product. The good news is, in 2019, we saw early signs of progress as we rolled out a singular core system of play. Just to playback case study, one of the reasons why Thomas business, to some extent, fell off the track, no pun intended, was because we had variations of track play and also moved away from the depths of characters in merchandising. We're getting back to a singular core play system. We're doing great, strong engagement with content that continues to resonate with kids around the world. And we're strengthening our retail presence and merchandising assortment at retail. All of this has been work in progress in 2019. We did see in the new single track system in the fourth quarter some great POS lift in single digits on that segment. With that as early signs of momentum, we are going to accelerate that progress into 2020. In addition to that we have the catalyst of Thomas' 75th birthday, which we have some great, proven track record of celebrating birthdays with momentum around our brands. Some terrific new product interactive engines that will bring the toys to life. And last but not least, we're excited to move the Thomas content in the U.S. to Netflix. So a great series of good strong lineups, both product and strategies for 2020, and we'll get a little bit more into detail in New York when we see you.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

So just 1 last follow-up. Does that mean you're moving away from Nickelodeon towards Netflix?

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

Yes.

Operator

Our next question comes from Felicia Hendrix of Barclays.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Joe, I know you've said throughout this call that your inventory levels are fine. But in your prepared remarks, you also just mentioned that there'll be higher inventories in the first quarter. So I was just wondering if you could specifically talk about what's driving that? And can we extrapolate that to your sales potentially being down in the first quarter to kind of accommodate for that higher inventory?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes. I think what -- yes, my comment was that the fact that the inventory in the first quarter could have a 1% to 2% impact on revenue in the quarter. So yes.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Yes. So what's driving that higher level? Is that just kind of building for the rest of the year? Or is that something else?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Well, what you mean, as far as the mid-single-digit growth of all of our Owned Brands, we're talking about mid-single-digit growth. So yes, if I'm getting your question right.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Well, you're saying there's just going to be higher levels of inventory in the first quarter? And I'm just trying to understand what exactly is going to be driving that?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes. Because we expect to be up mid-single-digit to our first quarter sales. So I think that's the biggest reason.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Okay. So it will match?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

That's the hope. That's what we're hoping right now. That's what we're telling you. We're going to have to update you in regards to the virus, but that's still an unknown. We have to come back to you on that.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Yes, yes. Okay, great. I just want to clarify that. And then just with Barbie, with your expected growth in Barbie in 2020, I was just wondering how we should think about that in terms of domestic and international? We saw some domestic kind of -- domestic was down this quarter, which was not surprising given what was going on in the environment, but just -- if you could just help us think about how to model that for 2020?

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

Yes, Felicia, I think we've proven now that it's not a question of if Barbie's going to grow. It's more about our philosophy is how high and how fast. We're very confident in the programs that we have in place for Barbie. We're going to share a lot more of that detail for you to give you the same type of confidence when we get to Toy Fair. But certainly, the past 9 consecutive quarters and, of course, this year, in particular, with such a competitive landscape, should give people more confidence. But we'll share a lot more of that detail with you when we get to Toy Fair.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Okay. But it sounds like you'll see return to growth in '20, domestically, for Barbie.

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

We will actually continue growth in Barbie. We did grow in Barbie.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

But your shipments were down in the fourth quarter?

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

For the year, for Barbie, we performed very well, and we had expected essentially the same performance that you saw in the first half and second half in the context of the plans for Barbie. And as usual, this is a long term proposition. We're going to be going into our 61st year, so we tend to look at Barbie with a long-term view.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Yes. Okay, great. And then just, Joe, you've done an extraordinary job this year in terms of your cost savings program and kind of showing upside to that almost each quarter. In terms of just a little bit that's left in 2020, is it getting harder to show upside? Or do you think that just we could see some of more of the same?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

You mean, in regards to cost savings or...

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Yes, cost savings.

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes. So right now we concluded the Structural Simplification program. So we ended up at $875 million on an original $650 million program. And -- through 2019, we'll have $797 million of that affected EBITDA and you have another $92 million that will affect 2020. So the carryover into 2020 is about $92 million. And then, in Capital Light, we did get the acceleration in the period of $15 million, and then we'll have another $50 million of savings associated with Capital Light.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Right. I was just wondering if the carryover is what it is? We shouldn't expect that to somehow kind of...?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes. We've concluded the program, et cetera. Now just because we've concluded the program doesn't mean we're not going after more savings. But the formal program that we've been pitching you on, we're now done. And listen, just to clarify the previous remark, because I think I thought about what you said. We are going to have a mid-single-digit impact to Q1 results as a result of where the inventory is at year-end, going into the first quarter. So I just wanted to make that clear.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Right. And that's how I was asking it, and I think its impact is an offsetting to grow -- I just -- I'm not -- maybe we should talk about this offline because I'm not sure...

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Okay. Let's do that.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

And on that note, we have time for one more, one more question or set of questions. But those who don't have time to get the questions put on the table now, we'll be happy to address it after this call.

Operator

And our final question comes from the line of William Reuter of Bank of America.

William Michael Reuter - *BofA Merrill Lynch, Research Division - MD*

Just 1 question on your capital allocation. Your guidance implies pretty strong free cash flow and you talked about debt reduction, but there isn't any prepayable debt in your capital structure at this point. So I guess, I'm curious whether you would repurchase your 2023 notes in the open market? And then related to that, you talked about investment grade. I guess, will you focus on getting to investment-grade before you would do shareholder-friendly stuff like share repurchases or -- I don't know, large onetime dividend, something like that?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes, sure. I mean, look, we will always use the most efficient use of our cash. And remember, the one thing, at year-end, the large debt becomes callable. So that does happen in December. So yes, look, those -- all the things you mentioned are things that are on the table, but we have to continue to grow the company, and then we'll evaluate the best use of our cash on a going-forward basis.

Ynon Kreiz - *Mattel, Inc. - Executive Chairman & CEO*

Okay. Thank you. So I just want to summarize, make a few closing comments, and thank you all for the questions. This call run a little longer, given that it's a fourth quarter, a big year. We also gave you guidance. There's more coming at Toy Fair, but it's fair to say that 2019 was an important point -- important inflection point for the company. In our turnaround, you saw methodical execution of our strategy. It is working. We have achieved significant improvements across key profitability metrics, including gross margin, operating income, EBITDA, EPS. And importantly, we achieved free cash flow positive, which is a big point in the turnaround. We also increased revenue in constant currency and grew global market share in the fourth quarter, which was very competitive and, at the same time, retained our global leadership position for the year.

We also continue to make progress in capturing value from our IP with 5 new film projects announced, 3 television series with Netflix and a lot of activity in our franchise management team. So all in all, I would say, we are very proud of the accomplishments of the company, of the team around the world. Our 2020 guidance reflects continued momentum and we hope to share with you more as we go forward. Thank you, and I'd like now to turn the call over to Dave for very last closing comments.

David Zbojniewicz - *Mattel, Inc. - Head of IR*

Thank you, Ynon. Thank you, everyone, for joining the call today. The replay of this call will be available via webcast and audio beginning at 8:30 p.m. Eastern Time today. The webcast link can be found on our investor page or for an audio replay, please dial (404) 537-3406. The passcode is 5764607. Thank you for participating in today's call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.