

# **Mattel, Inc.**

## **Earnings Conference Call**

### **Fourth Quarter and Full Year 2014**

(Unaudited Results)



**JANUARY 30, 2015**

**CHRISTOPHER SINCLAIR – CHAIRMAN AND INTERIM CEO**  
**KEVIN FARR – CFO**





FORWARD-LOOKING STATEMENTS: This presentation includes forward-looking statements relating to the future performance of our overall business, brands and product lines. These statements are based on currently available operating, financial, economic and other information and they are subject to a number of significant risks and uncertainties which could cause our actual results to differ materially from those projected in the forward-looking statements. We describe some of these uncertainties in the Risk Factors section of our 2013 Annual Report on Form 10-K, in our 2014 quarterly reports on Form 10-Q and in other filings we make with the SEC from time to time, as well as in other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.

REGULATION G: Information required by Securities and Exchange Commission Regulation G, regarding non-GAAP financial measures, as well as other financial and statistical information, will be available at the time of the conference call on the “Investors” section of <http://corporate.mattel.com/>, under the subheading “Financial Information” – “Earnings Releases.”

# Q4 and Full Year 2014 Key Takeaways



- ✓ **Disappointing Q4 results reflecting ongoing POS and retail execution challenges but improved inventory entering 2015**
  - Q4 gross sales of \$2.3 billion, down (-3%), including a 4 ppt unfavorable impact from currency
  - Q4 gross margin of 50.4%, down 410 basis points;
    - Approximately one-third of the decline attributable to MEGA Brands and one-third attributable to retail activities to drive POS
  - Q4 operating income of \$237 million and earnings per share of \$0.44 (includes a negative \$0.05 per share impact of MEGA Brands integration costs\* and a negative tax impact of \$0.03 per share)
  
- ✓ **Full year results below our expectations**
  - Full year gross sales of \$6.7 billion, down (-6%), including a 2 ppt unfavorable impact from currency
  - Full year gross margin of 49.8%, down 380 basis points
    - Approximately one-third of the decline attributable to MEGA Brands and one-third attributable to retail activities to drive POS
  - Full year operating income of \$654 million and earnings per share of \$1.45 (includes a negative \$0.16 per share impact of MEGA Brands acquisition and integration costs\*\* and a tax benefit of \$0.13 per share)
  
- ✓ **Mixed results in POS with improved inventory situation**
  - Full year global POS down slightly, with international up low-single digits and domestic down mid-single digits
  - POS decelerated in Q4 in both domestic and international markets
  - Excluding MEGA Brands, Mattel-owned inventories were down about \$40 million year-over-year, but still above historical levels
  - Domestic retail inventories down significantly and down in most international markets as well
  
- ✓ **New leadership moving forward with urgency to efficiently and effectively execute against strategic plan outlined in October**
  - Implementation of our Strengthen, Accelerate and Simplify strategies
  - Key focus on investments in product and marketing innovation, and improving retail execution
  
- ✓ **Remained financially disciplined in capital deployment strategy and maintained a strong balance sheet**
  - Ended the year with approximately \$970 million of cash on hand; at the higher end of our capital and investment framework of year-end cash of approximately \$800 million to \$1 billion
  - Declared Q1 2015 dividend of \$0.38/share, flat vs. prior year

\* Consists of integration costs, including amortization of acquired intangible assets.

\*\* Consists of acquisition and integration costs, including amortization of acquired intangible assets and inventory fair value markup above cost.

# Worldwide Gross Sales

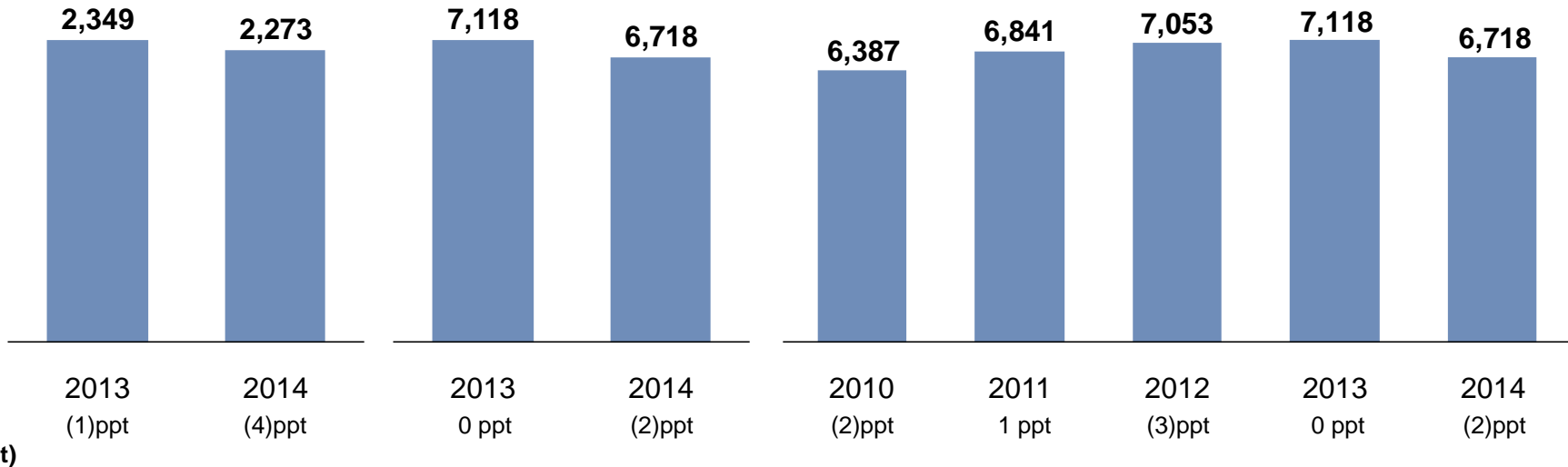


**Fourth Quarter 2014**  
(\$ In Millions – Unaudited)

**Quarter**  
-3%

**Full Year**  
-6%

**Historical Trend Full Year**



- WW gross sales down (-3%) in the quarter and down (-6%) for the year
  - Significant currency headwinds; Q4 includes 4 pts unfavorable impact from currency and full year includes 2 pts unfavorable impact from currency
- Sales also impacted by competitive doll category and inconsistent global retail execution
- Made good progress on inventory
  - Excluding MEGA Brands, Mattel-owned inventories were down about \$40 million year-over-year
  - Domestic retail inventories down significantly and down in most international markets as well



# Worldwide Gross Sales by Brand

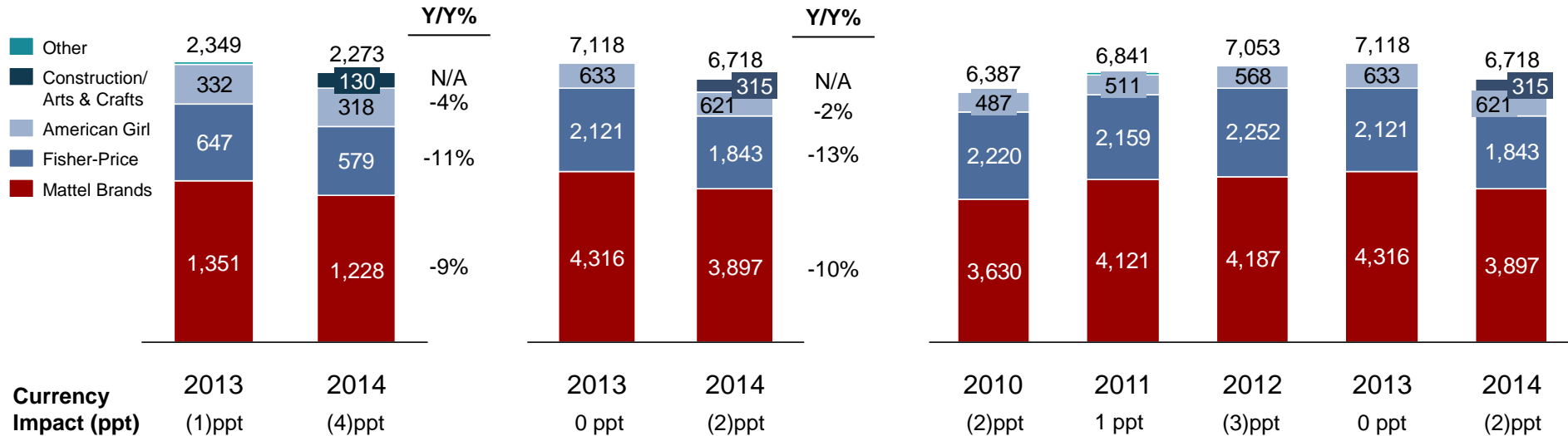


**Fourth Quarter 2014**  
(\$ In Millions – Unaudited)

## Quarter -3%

## Full Year -6%

## Historical Trend Full Year



### Full Year Narrative

#### Mattel Brands

Competitive doll category (declines in Monster High, Barbie, and Disney Princess excluding Frozen), and softer Entertainment property performance, partially offset by growth in Disney's Frozen and Hot Wheels, and the global launches of Ever After High and BOOMco

#### Fisher-Price

Challenging pockets of inventory throughout the year. Declines in Fisher-Price core brands, driven by playsets, and tough comps related to Fisher-Price Friends licensed entertainment properties

#### American Girl

Retirement of popular "Molly" Historical Doll in 2013, partially offset by continued strength in Girl of the Year. Solid performance at retail with new stores and international expansion

#### Construction/Arts & Crafts

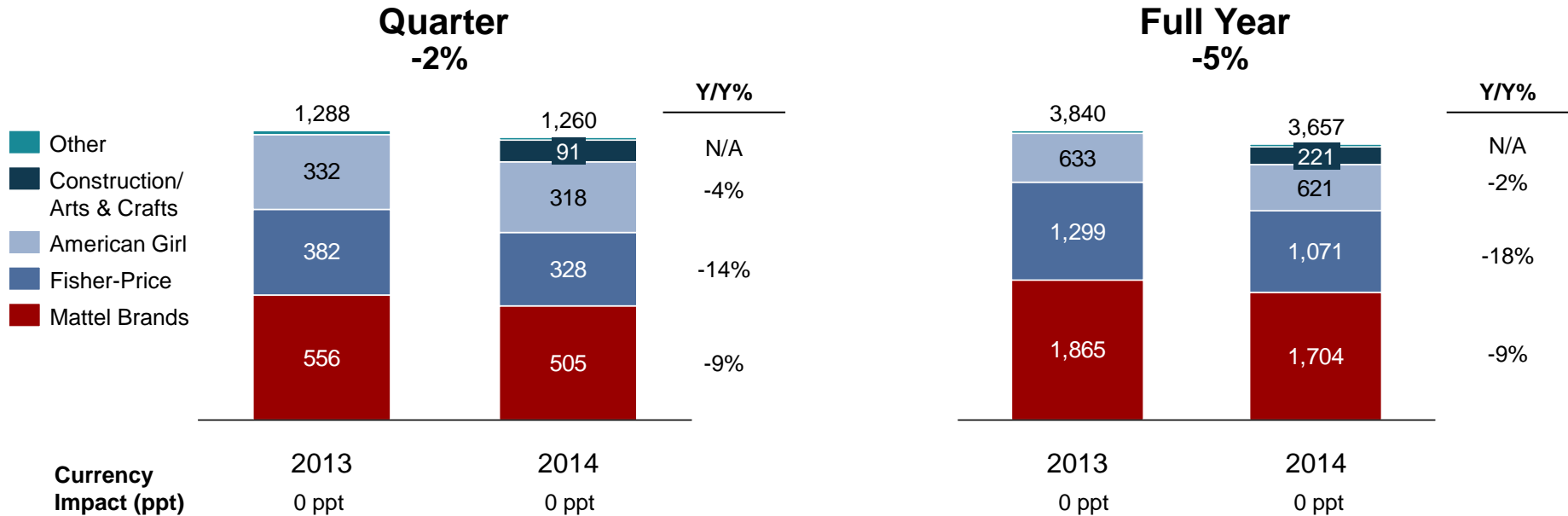
MEGA Brands results met expectations with solid progress on integration efforts



# North American Region Gross Sales by Brand



**Fourth Quarter 2014**  
(\$ In Millions – Unaudited)



## Full Year Narrative

### Mattel Brands

Competitive doll category (declines in Monster High, Disney Princess excluding Frozen, and Barbie), and softer Entertainment property performance, partially offset by growth in Disney's Frozen, and the launches of Ever After High and BOOMco

### Fisher-Price

Challenging pockets of inventory throughout the year. Declines in Fisher-Price core brands, driven by playsets, and tough comps related to Fisher-Price Friends licensed entertainment properties

### American Girl

Retirement of popular "Molly" Historical Doll last year, partially offset by continued strength in Girl of the Year. Solid performance at retail with new stores

### Construction/ Arts & Crafts

MEGA Brands results met expectations with solid progress on integration efforts



Note: North American Region includes North America Division and American Girl (see Appendix).

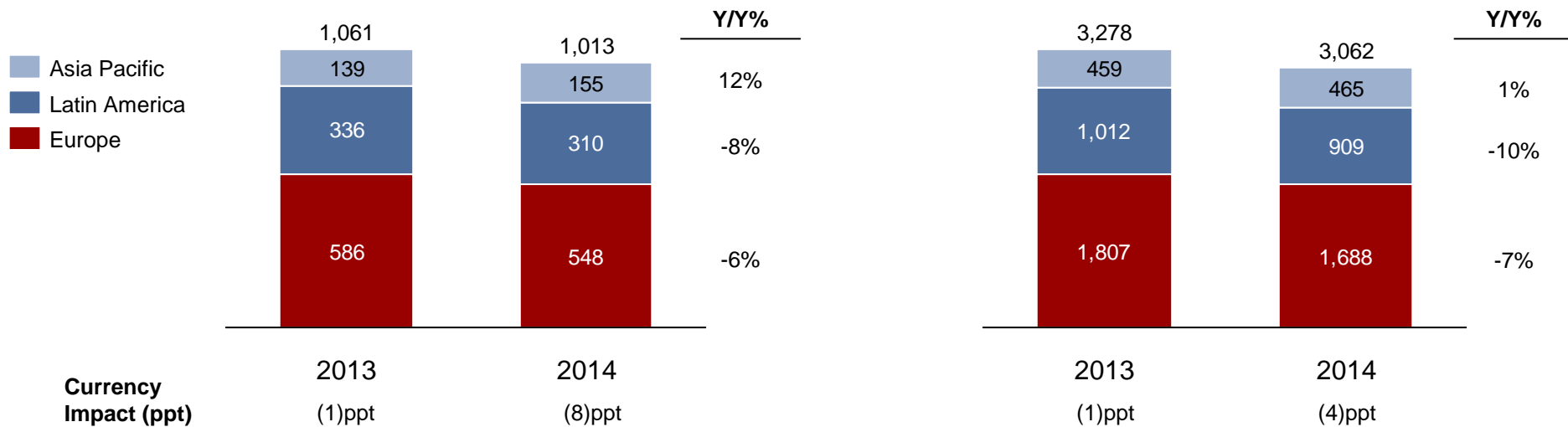
# International Gross Sales by Region



**Fourth Quarter 2014**  
(\$ In Millions – Unaudited)

**Quarter**  
-5%

**Full Year**  
-7%



## Full Year Narrative

### Europe

Significant currency impact; Q4 includes 9 pts unfavorable impact due to currency and full year includes 4 pts of unfavorable impact. Weakness in mature markets, partially offset by continued strong growth in Russia

### Latin America

Significant currency impact; Q4 includes 7 pts unfavorable impact due to currency and full year includes 4 pts of unfavorable impact. Softness in most of the region, partially offset by improving performance in Brazil

### Asia Pacific

Solid growth in Asia despite currency headwinds; Q4 includes 5 pts unfavorable impact due to currency and full year includes 2 pts of unfavorable impact. Continued strong growth in China



Note: International Region includes International Division (see Appendix).

# Currency Impact



## Brands

	Q4 2014		FY 2014	
	Worldwide Gross Sales at Actual \$	Currency Impact	Worldwide Gross Sales at Actual \$	Currency Impact
Mattel Girls and Boys	-9%	(5)ppt	-10%	(2)ppt
Fisher-Price	-11%	(4)ppt	-13%	(1)ppt
American Girl	-4%	0 ppt	-2%	0 ppt

## International Regions

	Q4 2014		FY 2014	
	Worldwide Gross Sales at Actual \$	Currency Impact	Worldwide Gross Sales at Actual \$	Currency Impact
Europe	-6%	(9)ppt	-7%	(4)ppt
Latin America	-8%	(7)ppt	-10%	(4)ppt
Asia Pacific	+12%	(5)ppt	+1%	(2)ppt

**General Rule:** Every 1% movement in the US dollar index should impact annual EPS by about \$0.01 to \$0.02 and impact revenue by about 1/2 percentage point



# Gross Margin



**Fourth Quarter 2014**  
(As a Percentage of Net Sales – Unaudited)

	<u>Quarter</u>	<u>Full Year</u>
<b>Prior Year:</b>	<b>54.5%</b>	<b>53.6%</b>
Change Primarily Driven By:		
Pricing	↑	↑
O.E. 3.0	↑	↑
Currency	↑	↓
Input Costs	↓	↓
MEGA Brands	↓	↓
Product Mix	↓	↓
Other Product-Related	↓	↓
<b>Current Year:</b>	<b>50.4%</b>	<b>49.8%</b>
<b>Change:</b>	<b>(410)bps</b>	<b>(380)bps</b>

## Full Year Highlights

- About 150 of the 380 bps decline was due to MEGA Brands
- Of the remainder:
  - About two-thirds due to inventory management given soft POS and reduced leverage of fixed manufacturing costs
  - Remainder primarily due to changes in mix within Girls portfolio
  - Pricing and OE 3.0 offsetting cost inflation

## Outlook

### Headwinds

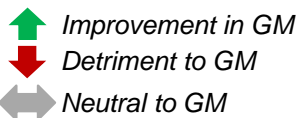
- Ongoing MEGA Brands headwind expected to be roughly 100 bps
- Changes in mix, primarily due to Girls portfolio
- Investments in improving core brand POS through retail execution
- Labor and input cost volatility

### Tailwinds

- Current decline in oil improves resin and transportation outlook
- Funding our Future supply chain optimization, including automation, “design for manufacture,” packaging, and procurement
- Absence of inventory fair value adjustments from MEGA Brands acquisition

## Objective













- Still believe long-term objective of about 50% is reasonable





## Fourth Quarter 2014

(\$ In Millions and as a Percentage of Net Sales – Unaudited)

	Quarter		Full Year	
	In Millions	% of Sales	In Millions	% of Sales
<b>Prior Year:</b>	<b>\$389</b>	<b>18.4%</b>	<b>\$1,561</b>	<b>24.1%</b>
Change Primarily Driven By:				
O.E. 3.0				
MEGA Brands				
Incentive & Equity Comp				
Strategic Growth Investments				
Employee-Related Costs				
Other (including severance)				
<b>Current Year:</b>	<b>\$445</b>	<b>22.3%</b>	<b>\$1,614</b>	<b>26.8%</b>
<b>Change:</b>	<b>(\$56)</b>	<b>(390)bps</b>	<b>(\$53)</b>	<b>(270)bps</b>

### Full Year Highlights

- SG&A spending up slightly including MEGA Brands
  - About \$55MM of spending related to MEGA Brands acquisition and integration costs\*
- Higher severance costs
- Partially offset by reduced incentive and equity compensation expense and OE 3.0 cost savings

### Near-term Outlook

- Reduced MEGA Brands integration and amortization expense
- Funding our Future savings initiatives, partially offset by related cash and non-cash investments

 Improvement in SG&A

 Detriment to SG&A

 Neutral to SG&A

\* Consists of acquisition and integration costs, including amortization of acquired intangible assets.

# Operational Excellence 3.0



## Fourth Quarter 2014 (\$ In Millions – Unaudited)

	Global Cost Leadership		Operational Excellence 2.0		Operational Excellence 3.0				
	2009-2010 Total	% of Gross	2011-2012 Total	% of Gross	2013	2014			2013-2014 Total
						Q1-Q3 Act	Q4 Act	FY Act	
<b>Savings</b>									
Gross Margin	\$89	40%	\$42	23%	\$51	\$52	\$25	\$77	\$128
SG&A	\$108	48%	\$122*	65%	\$8	\$25	\$10	\$35	\$43
Advertising	\$28	12%	\$23	12%	\$1	\$5	\$2	\$7	\$8
<b>Gross Savings</b>	<b>\$225</b>	<b>100%</b>	<b>\$187</b>	<b>100%</b>	<b>\$60</b>	<b>\$82</b>	<b>\$37</b>	<b>\$119</b>	<b>\$179</b>
Severance/Investment	(13)		(39)		(21)	(40)	(5)	(45)	
<b>Net Savings</b>	<b>\$212</b>		<b>\$148</b>		<b>\$39</b>	<b>\$42</b>	<b>\$32</b>	<b>\$74</b>	

- OE 3.0 program exceeded expectations delivering \$179MM in gross savings over two year period
- Global Cost Leadership, OE 2.0 and OE 3.0 programs have all exceeded expectations and delivered almost \$600 million in gross savings to date
- Recently announced fourth cost saving initiative with target to deliver \$250MM – \$300MM in cumulative gross savings by end of 2016
  - Most aggressive and largest program to date
  - \$100MM of savings targeted from supply chain optimization
  - \$150MM - \$200MM targeted from structure and process improvement initiatives

\* Includes \$81 million of Legal Savings in OE 2.0.

# Operating Income






## Fourth Quarter 2014

(\$ In Millions and as Percentage of Net Sales – Unaudited)

	Quarter		Full Year	
	In Millions	% of Sales	In Millions	% of Sales
<b>Prior Year:</b>	\$479	22.7%	\$1,168	18.0%
Change Primarily Driven By:				
Sales Volume		↓		↓
Gross Margin		↓		↓
Advertising & Promotion		↓		↓
SG&A		↓		↓
Currency		↓		↓
<b>Current Year:</b>	\$237	11.9%	\$654	10.9%
<b>Change:</b>	(\$242)	(1,080)bps	(\$514)	(710)bps

**FY Operating  
Income of  
\$654 million**

- Driven by sales decline, lower gross margins and reduced leverage on A&P and SG&A due to lower sales volumes
- Advertising spending in absolute dollars down for the year but up in Q4, reflecting shift to support holiday period
- Full year SG&A spending in absolute dollars up due to MEGA Brands, partially offset by lower incentive and equity expenses

 Improvement in Op Inc %  
 Detriment to Op Inc %  
 Neutral to Op Inc %



# EPS



**Fourth Quarter 2014**  
(\$ Per Share – Unaudited)

	Quarter	Full Year
<b>Prior Year:</b>	<b>\$1.07</b>	<b>\$2.58</b>
Change Primarily Driven By:		
Operating Income	↓	↓
Non-Operating Income / Expense	↓	↑
Taxes	↑	↑
Share Count	↑	↑
<b>Current Year:</b>	<b>\$0.44</b>	<b>\$1.45</b>
<b>Change:</b>	<b>(\$0.63)</b>	<b>(\$1.13)</b>
	<b>(59%)</b>	<b>(44%)</b>

**Q4**  
**EPS of**  
**\$0.44**

**Full Year**  
**EPS of**  
**\$1.45**

**Full Year**  
**Highlights**

- Decrease driven by lower operating income, partially offset by lower tax expenses and share count
- Includes negative \$0.16 impact related to MEGA Brands acquisition and integration costs\*

- Q4 '14 negative tax impact of \$0.03
- FY '14 tax benefit of \$0.13
- FY '13 tax benefit of \$0.09

↑ Improvement in EPS

↓ Detriment to EPS

↔ Neutral to EPS

\* Consists of acquisition and integration costs, including amortization of acquired intangible assets and inventory fair value markup above cost.



# MEGA Brands



## 2014 Acquisition and Other Related Costs (\$ In Millions - Unaudited)

	<u>Line Item</u>	<u>Q2 Actual</u>	<u>Q3 Actual</u>	<u>Q4 Actual</u>	<u>Full Year 2014</u>
Inventory Fair Value Adjustment	Gross Margin	\$8	\$7	\$0	\$15
Acquisition and Integration Costs	SG&A	\$11	\$5	\$12	\$28
Amortization of Intangibles	SG&A	\$5	\$10	\$10	\$25
<b>Total</b>		<b>\$24</b>	<b>\$22</b>	<b>\$22</b>	<b>\$68</b>

- Acquisition and integration costs primarily include deal costs and consulting fees
- Inventory fair value adjustment, required by purchase accounting for opening balance sheet, related to existing MEGA Brands-owned inventory
- Intangibles expected to be amortized over an average of 6-7 years
  - Amortization expected to decrease to \$17 million in 2015 and \$9 million in 2016

# Cash Flow\*



## Full Year 2014

(\$ In Millions – Unaudited)

	2013	2014
Net Income	\$904	\$499
Depreciation	\$179	\$208
Amortization	\$17	\$41
Change in Working Capital & Other	(\$402)	\$141
<b>Net Cash From Operations</b>	<b>\$698</b>	<b>\$889</b>
Capital Spending	(\$252)	(\$260)
Acquisitions	-	(\$423)
Other Investing	\$10	(\$26)
<b>Net Cash (Used for) Investing</b>	<b>(\$242)</b>	<b>(\$709)</b>
Payments of Long-Term Borrowing	(\$400)	(\$45)
Net Proceeds from Long-Term Borrowing	\$495	\$495
Share Repurchases**	(\$493)	(\$177)
Dividends	(\$494)	(\$515)
Financing Activities and Other	\$140	(\$6)
<b>Net Cash (Used for) Financing Activities &amp; Other</b>	<b>(\$752)</b>	<b>(\$248)</b>
<b>Change in Cash</b>	<b>(\$296)</b>	<b>(\$68)</b>
<b>Cash at Beginning of Period</b>	<b>\$1,336</b>	<b>\$1,039</b>
<b>Cash at End of Period</b>	<b>\$1,039</b>	<b>\$972</b>

Improvement due to reductions in working capital, partially offset by lower net income

**Cash Flow from Ops**

**Investing Activities**

- MEGA Brands acquisition; \$423MM, net of cash acquired
- Slightly higher capex, including MEGA Brands

- Paid quarterly dividend of \$0.38 (+6%)
- \$177MM in share repurchases down vs. prior year as we deployed \$423 million to acquire MEGA Brands

**Capital Deployment**

\* Amounts shown are preliminary estimates. Actual amounts will be reported in Mattel's Annual Report on Form 10-K for the year ended December 31, 2014

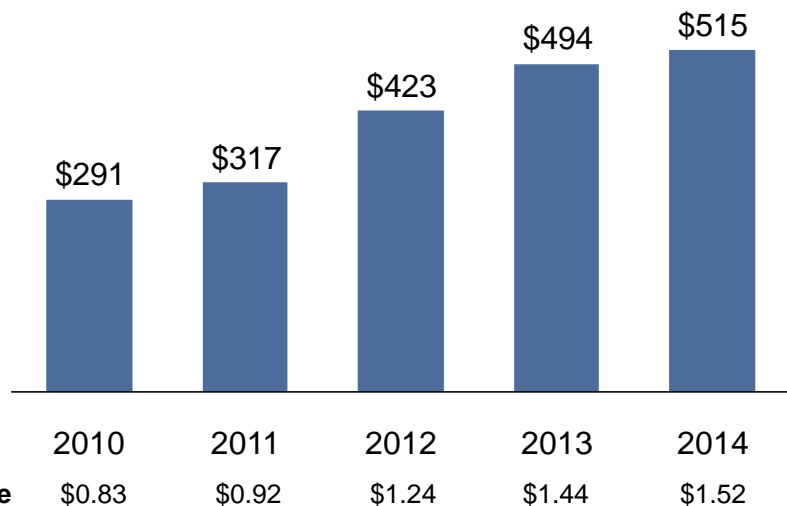
\*\* Cash paid for share repurchases totaled \$493 million in 2013, including payment of \$24 million for unsettled share repurchases from 2012



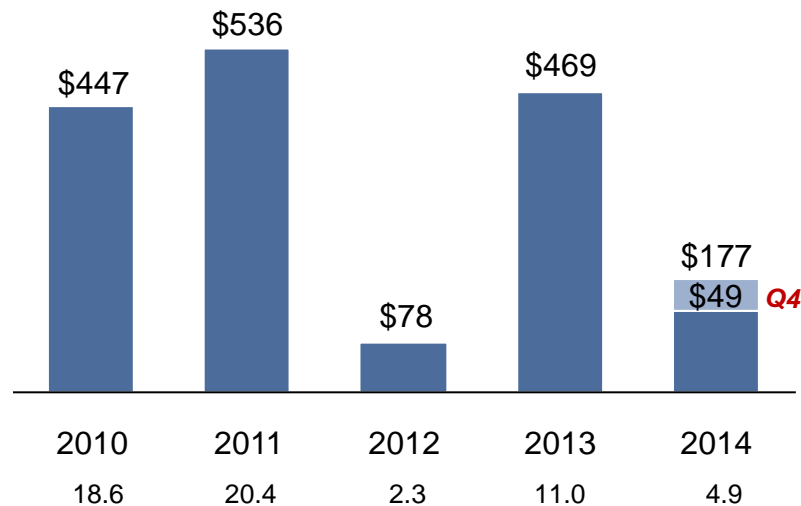
# Capital Deployment



## Dividends (\$MM)



## Share Repurchases\* (\$MM)



- Dividends remain a key component of our Capital and Investment Framework and key driver of Mattel's Total Shareholder Return (TSR)
- Declared \$0.38 2015 first quarter dividend, which is flat with the prior year
- For U.S. Federal Income tax purposes, approximately 80% 2014 dividend is a non-dividend distribution\*\*

- Share repurchase remains an important piece of Mattel's Capital and Investment Framework
- Share repurchases were down in 2012 and 2014 as we deployed capital to acquire HIT Entertainment (\$685 million) and MEGA Brands (\$423 million), respectively
- Mattel has repurchased over 57 million shares, at a total cost of approx. \$1.7 billion, since 2010

\* Shares repurchased in FY on accrual basis

\*\* Further tax information available in the Investors section at Mattel.com





# APPENDIX



# STRENGTHEN

## Growth enablers: Investments in

- ✓ Product Development
- ✓ Marketing
- ✓ Advertising



# ACCELERATE

## Continued Expansion



# SIMPLIFY

\$250 - 300MM  
Gross Savings Target

Funding  
our **FUTURE**

## Core Brand Growth

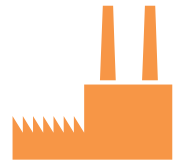
- ✓ Bigger, Better Ideas
- ✓ Consistent Global Execution



## Robust Movie Slate



Structure &  
Process  
Review



Increased  
Automation

## Great, Must-Have Innovative Toys



## Emerging Market Momentum



Reinvest  
for Growth



Restore &  
Grow  
Profitability



# Reporting Guide



## Name

## Description

North American Region

Includes North America Division and American Girl

International Region

Includes International Division

North America Division

Consists of the U.S. and Canada, excludes American Girl

International Division

Excludes U.S. and Canada

American Girl

Includes American Girl, excludes Corolle

Core Europe

Includes France, Belgium, Netherlands, Spain, Portugal, Italy, Germany, Austria, Switzerland, Nordics/Scandinavia, U.K.





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