



# **Toy Fair Analyst Meeting**

Friday, February 15<sup>th</sup>, 2019

[Video]

**Whitney Steininger:** Ladies and gentlemen, please welcome Ynon Kreiz, our Chairman and CEO.

### **Ynon Kreiz**

*Chairman and Chief Executive Officer, Mattel, Inc.*

Hi, everyone. Thank you for joining us today at the Mattel 2019 Toy Fair Analyst Presentation. You might have noticed the theme for the day. "You can tell it's Mattel". Some of you may know what this represents. For those of you who do not, it is our slogan from the 1950's, which we used in our very early TV commercials.

You may ask why we would choose a tagline from seven decades ago to present a company heading towards a new future in a new millennium. The answer is simple. While we are on a journey of transformation and reinvention, we are also a company with great legacy and deep heritage that is part of our foundation.

Mattel has always been a creative powerhouse with uncompromised commitment to quality from its earliest days. Our return to the tagline is a reminder that we are a company that transcends generations and our assets, brands, and products, many of which were created decades ago, still have so much value and so much resonance.

This sets us apart from the rest of the world. We have a lot to play with and a lot to play for. Today, my team and I will share with you some of the key areas we are focused on and the direction we are heading in 2019 and beyond, while we pursue our mission to create innovative products and experiences that inspire, entertain, and develop kids through play.

Mattel is in a multi-year turnaround. We are taking a very methodical approach and our focus is on solid, consistent execution. We demonstrated resilience and strong capabilities in the second half of 2018 in a challenging environment. We showed that we can execute in tough conditions and this performance will continue to get better.

While it would be easy for us to claim victory after such a strong finish for the year, we are still in turnaround mode and have a lot more work to do. At this stage, we are still focused on putting the building blocks together and making consistent progress towards driving efficiency and optimizing performance. We are mindful that this is not a sprint from quarter to quarter, but a multi-year marathon or a 10K, depending how fast you run.

In 2019, our focus is on executing our plan methodically, finding even more efficiencies, and driving continued improvement in profitability. In 2020, expect to see growing benefits and payoff from the transformation we are doing now. We will continue to position the company for sustainable, profitable growth and create long-term value for our shareholders. I am confident we have the right strategy, the right assets, and the right team to deliver results.

As you know, our strategy is to transform Mattel into an IP-driven, high-performing toy company. Our strategy has two parts. In the short to mid-term, our priorities are to continue to restore profitability by reshaping operations and to regain topline growth by growing our Power Brands and expanding our brand portfolio. In the mid to long-term, we are looking to capture the full value of our IP through franchise management and the development of our online retail and eCommerce capabilities.

Last week, we announced our fourth quarter and full-year earnings results. We made meaningful progress towards restoring profitability. We delivered the largest year-over-year improvement in operating income for the full year since 2012; and for the fourth quarter, since 2009.

We also reported the first gross margin improvement for the fourth quarter and the full year since 2013. We are tracking ahead with our structural simplification program and now expect to exceed our overall savings target of \$650 million by the end of 2019.

In terms of regaining topline growth, 2018 was a great year for Barbie. The fourth quarter marked the brand's fifth consecutive quarter of year-over-year growth and, at the same time, it achieved the highest full-year gross sales in the last five years.

Hot Wheels, reached its highest annual sales in its 50-year history and remained the number one property, globally, in the vehicle supercategory.

Additionally, we executed well in our two largest regions, North America and Europe, and we maintained our strength in Latin America and Global Emerging Markets, excluding China. As a result, we recaptured our leadership position as the number one global toy company in 2018. This was thanks to very strong execution by our people on the ground.

While I am talking about accolades, I should also mention that we have been the number one toy company in Latin America for three consecutive years. We have been the number one toy company in North America for four consecutive years and we have remained the number one toy company in the US for 25 consecutive years. Remarkable.

In terms of third-party IP, we demonstrated our strength as a world-class licensing partner. Jurassic World exceeded all expectations in 2018, delivering the biggest toy year ever for the franchise, in partnership with Universal. This is a great example of how we are advancing Mattel as a partner of choice for third-party IP owners by leveraging our global reach through innovation and global execution capabilities.

Heading into 2019, we are particularly excited to introduce our highly anticipated Toy Story 4 product line in partnership with Disney. We are also launching a new line based on BTS, the world's leading South Korean boy band which has become a cultural sensation with global appeal.

We look forward to the launch of this multi-category collaboration this summer. Just this week, we announced a multi-year licensing agreement with Universal's Despicable Me franchise. Our range of products will debut at retailers worldwide, ahead of the Minions 2 global theatrical release.

Mattel is the owner of one of the strongest portfolios of children's and family entertainment franchises in the world – think Barbie, Hot Wheels, Fisher-Price, Thomas, American Girl, Bob the Builder, Masters of the Universe, Polly Pocket, Magic 8 Ball, Enchantimals, Angelina Ballerina, Barney, Fireman Sam, and hundreds more.

Our portfolios run deep across a range of demographics including boys, girls, infant, toddler, preschool, tweens, and teens. It also covers a wide range of toys including dolls, fashion, cars, planes, trains, superheroes, spies, dinosaurs, ballerinas, mermaids, fairies, pirates, pets, magic, games, and many more – I can go on and on.

What is unique about toys is the high level of engagement and emotional connection with the consumer. Toys are things that you touch, you hug, you wear, you sleep with, you idolize, that play a role in every child's development and upbringing.

In the case of Mattel, for many of our brands, this goes back two and even three generations. Most parents played with the very same toys, based on the same brands, that their children's children are playing with today. With that built-in level of connection, there is a very natural opportunity for us to expand our toy franchises into other areas.

Over the past year, we have begun laying the groundwork to capture the full value of our IP in the mid-to-long-term through adjacent, highly accretive business verticals. With the creation of Mattel Films, Mattel Television, and our Global Franchise Management organization, we are targeting opportunities to develop our IP and extend our iconic franchises across film, television, digital gaming, live events, music, and consumer product and merchandise. With that said, it all starts with the right product.

To talk about this, I would like to invite Richard Dickson, our President and Chief Operating Officer, to the stage. As you know, Richard is a brand visionary with deep expertise in toy, retail, and fashion. Richard is in charge of orchestrating our brand strategy, making sure our franchises continue to prosper and represent the best the toy industry has to offer. His vision and expertise have been instrumental in turning the Barbie brand around over the last few years. He also oversees our toy innovation and creativity. Richard, it is all yours.

### **Richard Dickson**

*President and Chief Operating Officer, Mattel, Inc.*

Thank you so much, Ynon. Good afternoon, everybody. It is great to be here with all of you at the 2019 New York Toy Fair. I am particularly pleased to be sharing our progress today with the many familiar faces who have been on this transformation journey with us.

Ynon just took you through the strategy driving our transformation and the tangible results that we are achieving so far. Now, I am going to take you through how Mattel is executing against this strategy and preview some of the new products and programs that we are launching in 2019.

We have changed how we are organized to execute toward becoming an IP-driven, high-performing toy company, laser-focused on three performance drivers: category expertise, capturing the full value of our IP, and innovation.

First, we want to bring more game-changing products to market faster using our world-class consumer insights. We have realigned the organization by category rather than by brand. Now, this enables us to leverage our Power Brands as category flagships and our best talent to drive our extensive portfolio. For example, we used to have two separate teams, Barbie and Dolls, operating around the same consumer. Now, those two teams will be one.

As Ynon said, to unlock the full value of Mattel's IP, we have launched a global franchise management organization to complement our toy business. This organization is responsible for extending brands into highly accretive business verticals.

Third, to enhance the role of creativity in driving innovation and speed to market, we have

also made some significant changes. Our digital marketing team and design and development team will now report directly to me. By the way, that is me as a Little People.

This will ensure that the best ideas get the most creative exposure and allow me to engage more directly with Mattel's creative engine. Now, our structure aligns with our strategy. Streamlined teams dedicated to category management, franchise growth, and innovation, all working in close collaboration with Steve's global commercial team to drive Mattel's growth trajectory.

2019 will be an exciting year for the industry. Entertainment properties will be an especially strong influence across categories, thanks to a particularly toyetic movie line-up. YouTube personalities will continue to create wildly successful toy lines and add to the competitive field, driving new ways in demand creation. Competition from hit-making, item-driven toy companies will stay strong. And online sales will continue to rise, in light of TRU's exit and further retail consolidation.

For context, let us look at where we compete within the industry. Now, the toy industry is over \$80 billion dollars globally. \$50 billion dollars comes from the G12 countries that NPD covers, which is what I will discuss with you today.

The six categories where we are most developed represent 67% of the industry and we are the share leader with the leading brands in dolls, vehicles, and infant, toddler, preschool. Together, these categories make up almost \$20 billion in the G12 countries and Mattel represents 20% of that.

We are an important challenger in three other categories: building sets, games, and action figures. Now, beyond that, there is another \$17 billion annually, or 33% of the industry, that we call 'other', which includes outdoor and sports, arts and crafts, plush and more. Mattel is not as developed here and we see these segments as strategic white space for us to explore.

Now, with that backdrop, let us take a look, by category, at Mattel's key growth opportunities for 2019 and some of our great new products. Let us start with dolls. Dolls is an \$8 billion category in the G12 countries and the second largest category in the industry. It includes everything from playsets to large dolls; nurturing to fashion dolls.

Dolls, overall, had an incredible 2018 as one of the only categories in the entire industry that grew. Of the two that grew, dolls was the highest growth category with some of the highest hit rates in new launches – 14% versus 12% for toy overall. Mattel led this space as the number one player with 20% market share.

Let us start with American Girl, which is our doll brand in turnaround. Now, it's an iconic, large doll, a premium story-driven brand that has set the standard for the large doll segment with its distinctive and unique offering. However, as you know, a turnaround does not happen overnight. We are making a lot of progress and I want to share some of those highlights with you today.

American Girl is often a girl's first premium brand, so every single touch point really matters. Over the years, the brand strayed from many of the features that actually set the brand apart. Now, we are putting premium back in the box with signature quality features that really do matter to consumers. Importantly, once again, the emphasis and importance of storytelling for the brand will become prominent.

In the back-half of 2019, we are going to be relaunching our entire digital experience, including eCommerce. Physical retail is also an important key differentiator as an immersive and emotive occasion for our consumers. We are enhancing the features of our flagship stores to create those memorable moments our customers deserve and want.

Additionally, we are reassessing our retail footprint to ensure that we are meeting objectives, staying competitive, and positioned for future growth. Now, while it is going to take some time to achieve the desired outcome, this franchise is a truly special one, a beloved brand, and a valuable and important part of Mattel's portfolio.

The playset segment is the largest growth segment in the doll supercategory and it is crowded. Innovation that keeps core trends like gross play, tiny tech, and collectability - these are the trends that keep this segment fresh.

Now, we have had some recent successes with Pooparoos, playing to the popular gross trend, Lil' Gleemerz, which is tech-based, and we are quite pleased with the relaunch of Polly Pocket, which has given us a real foothold in playsets. Polly's features are right on trend, with emerging play patterns. As a result, you are going to see us double-down on Polly this year with great new items.

Now, this is a good start. We want Mattel to be much more pronounced in this space. We have a very strong foundation, but now it is time to take more swings. Our new category-focused structure is already driving this acceleration. New collectible concepts are coming. However, for competitive reasons, which you can appreciate, I just cannot talk about them just yet. I am eager to share them with you when the time is right.

Now, let us talk fashion dolls. Now, Mattel knows this segment better than anyone because we invented it. 60 years ago today, at this very Toy Fair, Ruth Handler, our founder, introduced the world to Barbie, the original girl empowerment brand. Since then, Barbie has inspired three generations, introducing girls to more than 200 careers, and has evolved to become the most inclusive and diverse range of dolls in the world.

However, four years ago, headlines were saying that Barbie had lost it. Some even wondered if there was any real future for this brand. We never doubted it. We never doubted that Barbie had a long-term future and we took significant steps to restore relevance and turn the brand around. We reignited Barbie's timeless purpose - a belief in the limitless potential in every girl. We boldly redesigned the product and line architecture to embody what the brand stands for. And we completely rethought how Barbie connects with consumers.

Today, there is no better turnaround story in this industry than Barbie. We took a nearly 60-year old brand and completely reinvigorated it. It did not happen overnight, but it demonstrates that we can turn big brands around.

As a result, 2018 was a phenomenal year for Barbie. The property led the fashion doll segment with a 54% market share, which is particularly impressive, given the competition. As Ynon noted, this was the fifth consecutive quarter of year-over-year growth for the brand and the highest full-year gross sales in the last five years.

It is the number one girls' brand in social media with 17 million followers. It is the number one girls' brand channel on YouTube with 5.6 million subscribers. It is a top show for kids on Netflix. And the brand purpose has never been more relevant or resonant. It all underscores

the power of Barbie.

The Barbie line-up for 2019 is exceptionally strong for the 60<sup>th</sup> anniversary, leveraging current momentum, consumer insights, and a ton of innovation. We are particularly excited by what we are bringing to the brand's most important lines.

Fashionistas continues to be the most inclusive and diverse doll line in the world. Barbie's 'I Can Be' is the brand's fastest growing line, encouraging girls to believe that "if you can imagine it, you can be it". This year, Barbie becomes an explorer in partnership with National Geographic.

We will also celebrate more real-world role models than ever with Sheroes – dolls representing remarkable women of achievement. For our younger audiences, this year's Princess lineup is our best-looking fantasy collection yet.

What you will not see in the gallery are the unprecedented new Barbie collaborations that, I think, speaks volumes about the evolving potential and the power of this brand. Let's take a quick look.

[New collection presentation, 00:23:47 to 00:25:20]

All right, there is our girl. Now, from one pop culture icon to another pop culture sensation. This year, we are applying Mattel's unmatched expertise in fashion dolls to the wildly anticipated launch of a new line of dolls based on the pop culture music phenomenon and the world's most popular boy band, BTS from South Korea. Now, I know some of you may not know who these guys are, but you will. Take a look.

[New collection presentation, 00:25:50 to 00:27:19]

Yes, it is pretty incredible. I was actually going to wear a jacket, but I thought that would go a little too far.

They are literally the most retweeted celebrities in the world and ranked number one on the Billboard Social 50 list. It is no wonder that we have created a completely innovative new digital marketing campaign, employing innovative social media methodology that will drive demand in entirely new ways, adding excitement to the category and at retail. Now, we know we have something very special in this collaboration. We are looking forward to sharing a lot more about it soon.

We are determined to succeed in each and every segment of the doll category. We unquestionably have the expertise. Now, we can build on our success with Barbie and playsets to create a more robust and competitive presence, overall. Going forward, you are going to see Mattel take big, calculated risks that drive innovation and growth as the leaders in dolls competing at the highest level, category-wide.

Next up is vehicles. It is amazing to think that 60% of all boys receive a toy vehicle on or before their first birthday. It is highly likely that vehicle will be from Mattel. Each year, we sell more than 500 million cars worldwide. By the way, that is more than five times the vehicles sold by full-sized car makers each year.

In the G12 countries, vehicles is a \$4 billion category. Mattel leads with a 31% market share, driven by Hot Wheels, Matchbox, Disney's Cars, and other licensed products. 2018 was a big year for us in this space. We grew category share, overall, for the third consecutive year,

despite Disney's Cars 3 coming off a strong movie year in 2017. Hot Wheels celebrated its 50<sup>th</sup> anniversary beating performance expectations and demonstrating, yet again, why it leads the category.

Now, we are just as energized about 2019 and expect it to be another "biggest year ever" where innovative new products will present unique opportunities. I am especially excited about our 2019 line-up. Hot Wheels City, which we introduced last year, has been a great success that is expanding our system of play, including digital content and gaming.

Track Builder, which encourages basic play to world building, continues to be a strong component of the Hot Wheels brand and is right on trend with the Maker play pattern. Monster Trucks is our newest entry in the category, which we'll launch both as a global toy line and a thrilling live event in the United States.

Licensing will be even bigger this year. It is a growth segment with new items in nearly every major theatrical release from Disney's Toy Story 4, Star Wars Episode 9, Marvel's The Avengers, DC Shazam and on and on.

Now, I have a particular favorite – let us see if you can guess what it is – coming this fall.

[New collection presentation, 00:30:42 to 00:30:48]

Who's got it? Mario? Yes. Mario and Hot Wheels have teamed together to create an amazing playset which is going to be launching. You can see it in the gallery, but it is really going to be a blockbuster item.

Breakthrough innovation is revolutionizing Hot Wheels play. There is so much more of it that you are going to see today when you tour the gallery.

Now – turning now to the industry's largest category, infant, toddler, preschool. It is a growing category that represents \$8 billion in the G12 countries. Mattel leads with a 15% market share.

Yet, despite our leadership position and strong affinity with parents, we have lost share over the past four years due to a variety of factors, including a consumer misperception that Fisher-Price was an infant-only brand, a price value equation that did not hold versus the competition, and retail pressures – notably the Babies "R" Us and Toys "R" Us closures – that hit Fisher-Price especially hard, slowing a rebound.

Turning a brand of this size around in a segment of this size is not easy, but we are making progress and we are addressing each of the big challenges. We have invested in a brand platform that reinforces the brand's value from birth to bus. We are also improving price value with more focus on single-minded product design. Recently, we have consolidated all of our infant, toddler, and preschool brands with Fisher-Price.

Let us take a look at what is ahead in 2019.

We are reenergizing Little People, introducing pop culture collectible figures like the Beatles and Kiss. This year, Little People, in an amazing new partnership with Disney's Frozen, will have a particularly amazing item, The Frozen Ice Palace. It sings 'Let It Go' and includes accessories that allow little hands to play out the stories of Disney's Frozen franchise with Little People Elsa and Ola, and all the great characters that make up this powerful brand.

We have had a great response to our new Linkimals line. It is a range of toys designed for

immersive learning. Each item is a great standalone toy. However, when several are brought together, they recognize one another and they all work together to make learning even more fun.

We have a very strong line-up coming from Imaginext, featuring Batman, Toy Story, and Jurassic World toys. Let me just say when you see it, the RC Batmobile is truly unbelievable. It is a great demonstration of Mattel innovation.

We are also launching three new categories starting with Rescue Heroes, a new type of preschool action figure line. Plus, we are launching two new lines, Role Play and Wonder Makers, which are distinctive contemporary takes on classic play patterns created with the millennial mom in mind.

Thomas and Friends now benefits from being part of Fisher-Price. For 2019, we have simplified the line, focusing on the top engines and the steam team – the core of Thomas and Friends. We are working on merchandising to better our presence and make a stronger connection at retail. We are creating wonderful new product inspired by our collaboration with Nickelodeon.

As I think you will see, there is a lot of good work coming from Fisher-Price. Moving forward, bolstered by a new strategy and structure, we expect Fisher-Price to lead from a much stronger footing.

Now, let us take a look at three categories where Mattel is an important challenger with significant opportunity ahead. Action figures is a \$3 billion category. Mattel has a 15% share. This category skews towards boys, though there are a sizeable number of adults engaged in this space as well. Character is the key driver of purchase and the strongest motivator for kids and adults. It is no surprise theatrical properties and, to a lesser degree, gaming IP are prime movers. 2019 will eclipse one of the biggest theatrical slates in years.

2018 was a big year for action figures, driven in part by Mattel's own success with Jurassic World. Mattel innovation activated the entire breadth of play this franchise offers. As a result, we are very proud that our Jurassic World line shattered prior toys sales levels for the franchise. Toy sales can decline by 50% or more in Year Two of a movie franchise. However, our success last year with Jurassic World and our ability to create highly innovative toys gives us the confidence that we will buck that industry trend.

This year, we are going to focus on character-driven partnerships with Disney, Warner Brothers, Universal, and WWE. We have a longstanding partnership with Disney, as you know.

This year, we are building on our success with Disney Cars 3 to bring the beloved characters of Toy Story 4 to the marketplace. This highly anticipated movie launches in June. It is a major tentpole. Let us take a look at the latest Toy Story 4 commercial, which you may have seen on Super Bowl Sunday.

[Video playing, 00:36:31 to 00:37:04]

The toys are amazing. You are going to see them when you tour the gallery.

Moving on to building sets – what we call construction. Now, construction is a \$5 billion category and Mattel is the number two with a market share of 5%. There is huge opportunity

for growth. As you know, there is a very dominant leader in this category. However, our brand, MEGA, is the only significant challenger. That represents unique opportunities: value is our primary point of difference. We are growing market share at a critical point in the junior construction space by offering great product at great value to younger kids. It is a real alternative to the competition.

Our new MEGA Bloks 80-piece Big Building Bag is a great example and the top preschool item in construction. We are leveraging the growing importance of characters through MEGA Construx with our license for Pokémon Pickachu, which has a movie coming out this spring. Great product at great value and lots of competitive items this year – all of which you are going to see in the gallery.

Games and puzzles is a \$5 billion category in the G12 countries. Mattel is a significant challenger in this crowded space with a market share of 5%, including America's number one game UNO. Games has the highest rate of major launches in toys each year, which is more than one and a half times the next closest category, which is dolls.

However, breakout hits are rare. It is essential that we create a continuous and robust pipeline of ideas. Perennials are an important part of the category. We have evergreen brands like UNO and Pictionary, and we are going to continue to improve Mattel's ability to innovate and sustain them.

This gives you just a glimpse of the amazing new products that you will see. I feel really good about where we are today. Mattel is doing better and better and truly becoming a high-performing toy company.

We have a sound strategy that is demonstrating results and have restructured to deliver on it in an even more effective way. Our team is energized. We are seeing positive change in the creativity and the determination of our culture. We are building on our industry and category leadership with innovative new product and demand creation for 2019.

Thank you again for being here with us today. We are going to look forward to sharing our progress, as always, with you throughout the year, beginning with the great products that you will see a little later in our gallery.

Thank you. Now, let me turn it back over to Ynon.

**Ynon Kriez:** Great. Excellent. Thank you, Richard.

Next up is Steve Totzke, our Chief Commercial Officer. Steve has been at Mattel for over 20 years and he is one of the industry's most accomplished commercial executives. Steve was promoted last year and is now running our global commercial organization, working in tandem with each of our regional heads and ensuring best-in-class practices are being shared.

We own the most comprehensive commercial platform in the industry and sell our product through more than 375,000 doors globally. Our team has maintained strong relationships with all of our key retailers, which was a competitive advantage as we navigated the retail disruption in 2018. Steve?

**Steve Totzke:** Yes.

**Ynon Kriez:** All yours.

[Music, 00:40:58 to 00:41:06]

**Steve Totzke:** Okay. Thanks a lot.

## **Steve Totzke**

*Chief Commercial Officer, Mattel, Inc.*

Thank you, Ynon. Good afternoon, everyone. It is wonderful to be here today, representing the work of thousands of my global team members. These talented teams are strategically planning, marketing, selling, and executing with excellence from 40 offices and 150 countries all around the world.

Now, the last time I spoke to this group was in February 2017. The focus of my comments on that day were grounded in two major areas:

1. Mattel's deep analytical capabilities; and
2. Our investment and methods to fully understand the rapidly evolving shopper path to purchase.

These capabilities and our approach are more relevant than ever and certainly served us well in 2018 as we successively navigated a serious retail disruption in our industry.

Now that day, I ended with my perennial prediction that come Christmas morning, Mattel would have more toys under more trees, inspiring more wonder than any other toy company in America. We did, in fact, finish 2017 as the number one toy company in America. As you just heard from Ynon, we have repeated that again in 2018 and actually regained the number one position with NPD, globally, according to NPD.

This unprecedented success does not happen by accident. There are several key drivers:

1. Strong and powerful brands kept relevant through reinvention, creativity, and innovation.
2. Premier licensed partners. Our objective has always been to partner with the best and be the best partner. We treat these properties like they are our own and they benefit from;
3. Unmatched commercial execution. Insight-led, customer-centric, with some of the longest, deepest, and most trusted retail relationships around the country and around the world.

These critical components all come together and are executed by one of the most talented and tenured teams in the industry.

Richard just shared with us some of the many ways Mattel is evolving and innovating our product and play experiences as well as some of the incredible properties coming from our licensed partners in 2019. Now when it comes to demand creation, our strategies also continue to evolve.

Today, we are digital first. We meet the consumers where they are. Before, it was just TV. Now, we are on multiple screens on YouTube, Facebook, Twitter, Netflix, and Hulu – numerous platforms, built on fast droves of data and insights, offering broad reach and

hypertargeting. Today's engagement is more diverse than ever, so is Mattel's content and media mix. Ultimately, the shopper path leads to conversion either in a store or online.

Let me focus my comments today on our omnichannel retail execution. This is a mixture of art and science, and Mattel excels at both parts of the equation. One of Mattel's clear competitive advantages is our unparalleled global reach and our ability to innovate and execute at retail, both in-store and online. It is a towering strength refined over decades as we continue to test, learn, adapt to be the best partners to our retailers.

I will start with in-store, and despite almost a quarter of global toy volume moving online, that leaves three-quarters that is transacting in a physical store. As Ynon said earlier, Mattel's global distribution network includes more than 375,000 doors.

When it comes to distribution into other channels, I am thankful for my predecessors, who had the foresight to launch a channel management strategy way back in 2003 and actually established an emerging channels division. We continue to improve and fuel our global channel management approach with channel-specific product, packaging, merchandising, and a dedicated team to completely serve and succeed in these channels.

Here are just a few examples from our incubator team, where they have utilized our expertise with our licensed partners' IP to develop high-quality, channel-specific product. This is an example where all of our strengths converge for maximum success – great product, strong partners, unmatched commercial execution.

With our larger customers, we engage in multiple-year, cross-functional, insight-led strategic plans. This is really where Mattel's deep insights and significant investments in the science provides full value to our customers as we perfect those plans.

We bring a category view. We understand the shopper and shopping patterns. We utilize research and technology to optimize the shelf. We use neural networks and basket distribution analysis to inform distribution and promotional strategies. We adjust to the evolution of physical retail and experiences.

One of the many good examples from 2018, where this all came together, was our Hot Wheels Legends tour. We partnered with Wal-Mart and created a national multiple-city car show where customers brought their real-sized custom vehicles to a Wal-Mart parking lot for a chance to have their car made into a real-life Hot Wheels diecast toy, memorialized forever. The sales results exceeded all expectations.

However, it was the community engagement that was truly phenomenal. It was like the County Fair came to town at every stop. Amplified by local media, by social media, by word of mouth, it became a movement, enhancing brand love for Hot Wheels, for Wal-Mart, and for Mattel. It was born from insights co-created through our strategic planning process, leveraging the strengths of both companies to deliver the ultimate retailtainment event. Let's look at the Wal-Mart Hot Wheels Legends 2 tour.

[Video, 00:47:10 to 00:48:16]

Pretty cool. I am excited how we are going to follow it up in 2019, but it is still under the tarp and in the garage.

I want to provide one more example that will move us from in-store to online. Richard

mentioned the record volumes we drove with our partners at Universal on the Jurassic World toy line. Again, these numbers do not happen by accident. We pulled all the levers across global retail to generate awareness and sell through Jurassic World disruptive merchandising, multiple features and promotions, robust digital assets, and dedicated and immersive brand sites. Mattel has been recognized all over the world for its best-in-class omnichannel execution, both from our customers and from Universal themselves in multiple regions.

You just saw some high-impact visual examples of our online execution. Let me conclude my comments today by highlighting just some of Mattel's online capabilities. As part of our early channel management strategy, Mattel identified eCommerce as an important future and enduring trend. Over the past decade, we have developed considerable capabilities. eCommerce has become an important part of Mattel's commercial strategy as online continued to outpace brick-and-mortar in 2018.

Our success in this space has been purposeful. It has been global. It has been award-winning. It is been all-encompassing. It has impacted everything from the continuous refinement of our digital assets for the thousands of our A-plus detailed product pages in dedicated brand sites to pioneering multiple supply chain logistics and packaging innovations. We continue to test, to learn and adjust, along with our retail partners and with our own direct-to-consumer divisions like American Girl and Mattel Shop. It is a core pillar in our company's strategy in the mid-to-long-term.

Let me provide some global statistics to contextualize our current scale online. We have over 2,000 A-plus detailed pages with rich and robust digital assets; 6,000 active items, most with 4+ star ratings. We currently have over 400 products with ECR, or eCommerce-ready, packaging. You see, we have been learning and leading online for quite some time.

Here is one of my favorite examples to demonstrate how long we have been innovating in this space: a thank you letter from Jeff Bezos to our team recognizing us for initiating frustration-free packaging. Yes, you notice the date – way back in 2008. As much as we have been leading in this space, we are continuously improving, enhancing, and investing in our own digital capabilities to maintain our thought leadership.

As you can probably tell, I am incredibly proud of Mattel's teams and commercial execution all around the world. They have been delivering sustained success across decades, across countries, across channels. The insights, innovation, and executional ability of our global teams is a true competitive advantage for Mattel, for our partners, and for our customers.

When I review the product portfolio for 2019 and I see the commercial plans being put into place, I will once again predict that come Christmas morning, Mattel will have more toys under more trees, inspiring more wonder than any other toy company in the world. Thank you very much. With that, I will welcome Ynon back up. Thanks, guys. Thanks.

**Ynon Kriez:** Thank you, Steve.

Next, I am pleased to introduce Amy Thompson, our Chief People Officer. Amy has held global HR leadership roles at both TOMS Shoes and Starbucks and joined Mattel a year and a half ago. She has played a pivotal role in our culture transformation over the last year. Culture is one of the most important things we are driving at Mattel and is a key priority for

me.

A lot of Amy's great work happens behind closed doors but is crucial to our success. We need to have the right people with the right mindset across our entire organization to drive our transformation. While at some companies, HR is about hiring, firing, and benefits; at Mattel, it is about creating performance-driven, results-oriented culture centered on empowerment and accountability in order to drive innovation and amplify creativity. Amy, please.

[Music, 00:52:58 to 00:53:07]

### **Amy Thompson**

*Chief People Officer, Mattel, Inc.*

Thanks, Ynon. Good afternoon, everyone. As you have heard Ynon and Richard and Steve share today, we are on an exciting path to transform Mattel to an IP-driven, high-performing toy company. We are a team of designers, strategists, innovators, and engineers, who are united by our mission to create products and experiences that inspire, entertain, and develop children through play.

We never forget that as what we do has real impact on kids and families. Against this backdrop, when we looked at how we were going to achieve our vision for the new Mattel, we recognized that we needed to fundamentally rethink how we were going to operate and drive towards a more progressive mindset that is culturally centered on performance and purpose.

Last year, when we began this process of transforming our culture, we had our fair share of challenges. We started by articulating a clear strategy outlining actionable short-to-mid and mid-to-long-term business priorities. We have focused on attracting, retaining, and developing the best talent up and down and all across our organization, making certain that our teams are aligned to our strategic direction. This is an essential component of any high-performing culture and a necessity at Mattel.

We also took important steps to redesign how we operate. As Richard discussed, we reorganized our brand groups around a global category management structure to drive growth across categories. By elevating our design and development function, we are cultivating an environment where our creative talent can drive greater toy innovation.

We have also hired executives who bring new capabilities and experiences to accelerate growth and new channels, including Franchise Management led by Saban veteran, Janet Hsu, Mattel Films led by Academy Award nominated producer, Robbie Brenner, and Mattel Television led by Adam Bonnett, a 21-year Disney Channel veteran. I can say with confidence that we have attracted the best talent in each part of the industry. Exceptional talent is key to our success.

With all of these efforts, we have been steadily focused on increasing diversity at the company, with women representing over 60% of our global workforce and 40% of corporate leadership positions.

In addition, we have a truly global workforce with more than 57 nationalities represented across the company. Our employees bring fresh ideas and deep history to Mattel. We have employees who set their sights on working for Mattel when they were just four years old and

are now living out their dreams as Mattel employees, 40 years later.

At the same time, we have instituted important initiatives to raise the bar. We reset performance standards to drive greater accountability, ownership, and execution across the company.

We have modernized our work/life programs to be more progressive and competitive, with flexible work schedules. We have developed our Wonder Values and applied them rigorously across our end-to-end employee experience, which now serves as the foundation for how we hire, develop, and promote at Mattel.

While we celebrate our rich heritage, we also challenge the status quo and have redesigned our reward and recognition programs to encourage employees to let go of legacy systems, and processes, and behaviors. We are investing in developing our talent and careers through targeted training, succession planning, and leadership development.

Most importantly, at the heart of advancing our culture is a new standard on what it means to be a leader at Mattel, with a greater focus on empowering decision makers at all levels of the company so we can simplify our work, remove barriers, and gain speed. These comprehensive efforts, actively supported by our entire leadership team, are succeeding in engaging our talent.

Lastly, creating the opportunity to activate our mission to inspire and develop children through our global philanthropic programs continues to energize employees across all regions and campuses around the globe. We know that purpose matters to millennials, which is our largest growing workforce segment at the company.

Working for a company that is centered on purpose and creates the opportunity to give back into the communities in which we work has accelerated our ability to attract talent to the company. For example, in 2018, Mattel employees across 28 countries came together to advance the cause for nearly 40 non-profit organizations that focus on supporting children and their development, positively enriching kids around the globe.

Mattel also supports technology, art, and sports programs for children in Mexico. We have also renovated more than 30 schools in the Guangdong province in China. In Canada, Mattel sponsors Sainte-Justine's Hospital for Children. In Los Angeles, we have been a committed partner to the UCLA Mattel Children's Hospital for more than 20 years, where we helped fund the expansion of a world-class pediatric care center and research hub for improving children's health.

Our leaders at Mattel think of our transformation as a real opportunity to leave our mark on the world's most storied toy company and the world's most iconic toy brands. All the while, we are fueled by our work that is shaping the next generation of leaders, politicians, scientists, and artists. Here is one great example.

[Video, 00:59:09 to 01:00:43]

While our work is far from done, I can say with confidence that Mattel is reinventing itself and the industry, fueled by our shift to a high-performance culture where engagement and accountability drive innovation and where purpose-driven work is what unites us. Thank you so much.

**Ynon Kriez:** Thank you, Amy. A lot of really great work.

I would now like to introduce Joe Euteneuer, our Chief Financial Officer. With more than four decades of financial leadership experience at Sprint, Qwest, XM Radio, Comcast and more, Joe has brought a new level of financial discipline and rigor to Mattel.

Joe's deep financial and administrative leadership is helping to drive our transformation. He is working closely with me to drive a result-oriented, high-performing organization. Joe takes his commitment very seriously. In fact, he is now adding another Fisher-Price consumer to the Mattel's growing family in the coming months. Joe, *mazel tov*. Please, come to the stage.

**Joe Euteneuer:** Okay. Thanks.

[Music, 01:02:03 to 01:02:12]

### **Joe Euteneuer**

*Chief Financial Officer, Mattel, Inc.*

Okay. Thank you, Ynon. Good afternoon, everyone. Today, you have heard about how we will be executing our strategy in 2019. For my portion of the presentation, I will share how this will translate to our financial performance and enhance long-term shareholder value. I will be highlighting how we are thinking about the key drivers of our business as well as any noteworthy events in 2018 in 2019, for comparative purposes.

As mentioned, we made substantial progress towards restoring profitability driven by structural simplification. As Ynon said, we view this as a multi-year turnaround to achieve the benefits of profit restoration as we progress towards regaining topline growth. Today, I will talk about the key components that make up our 2019 financial outlook. Before doing so, I want to talk about the environment we are operating in, from a macro perspective.

2018 was a year of retail disruption for the toy industry. We believe we navigated this disruption pretty well. Looking ahead, projections from Euromonitor last year expect the global toy industry to return to growth over the next few years. While there may be residual disruption in 2019 from Toys "R" Us, we would expect the industry to return to historical levels of growth in 2020 and beyond.

Remember, parents will always care about the development of their children and children will always want to play and because of our differentiated positioning with a strong portfolio of iconic brands, premier partnerships, quality product offerings, and global commercial capabilities, we intend to maintain our position of leadership and aim to grow market share in the industry.

Turning to 2019. We expect gross sales to be flat in constant currency. After multiple years of consecutive decline, achieving flat sales is a meaningful year-over-year improvement. Stabilization of the topline in 2019 would position us for enhanced profitability in 2020 and beyond. Based on current spot rates, we expect a low-single-digit negative impact from foreign exchange in 2019.

Let's take a look at our assumptions by brand, in constant currency. This year, we expect continued growth in Barbie and Hot Wheels, though not at the same extent of 2018 levels, and the stabilization of Fisher-Price by the end of the year.

This will be partially offset by a decelerated decline in Thomas and continued declines in American Girl as we execute our strategy, which includes the rationalization of our retail footprint to improve profitability. Declines in our other brands are expected to be driven by year-over-year comparisons of small licensed properties.

As you consider the phasing of our revenue throughout the year, it is important to note the seasonality of our business. Sales in the year are back-end weighted, with approximately two-thirds of sales occurring in the second half of the year. Also, include the relaunch timing of Polly Pocket in the second quarter of 2018 as well as the timing of entertainment releases in both 2018 and 2019, for comparative purposes.

Our tentpole entertainment license this year will be Disney's Toy Story 4, as you saw. While we expect Jurassic World to continue to be strong in 2019, there will likely be a year-over-year drop-off in revenues in its second year, as is typical with theatrical releases. We expect the first quarter to include the following revenue headwinds:

- Foreign exchange is expected to have a mid-single-digit negative impact based on current spot rates;
- The combination of the absence of Toy "R" Us along with the declines in our China business is expected to have a low-to-mid-single-digit negative impact; and
- The shift in the timing of Easter from Q1 in 2018 to Q2 in 2019 will also have an impact.

As Richard discussed earlier, we have shifted to organizing the business by category. For 2019, in addition to the existing gross sales by brand reporting, we will also report gross sales by category. Reporting this way will enable us to manage our business with a portfolio approach, provide better visibility, and drive stronger results.

Moving on to our 2019 expenses. Our strong operational execution towards structural simplification led to substantial profit improvement with \$521 million of run rate savings exiting 2018 and \$372 million realized in the year. \$149 million of the incremental savings will materialize in 2019 P&L from structural simplification actions taken in 2018.

Additionally, we expect to achieve incremental run rate savings of more than \$129 million, exceeding our \$650 million target exiting 2019. We expect approximately \$50 million to \$75 million of those savings to materialize in the 2019 P&L, with the balance to materialize in the 2020 P&L. The cost to achieve the \$129 million savings is expected to be approximately \$50 million.

From the outset, structural simplification has been about more than cost-cutting. We have taken a very disciplined approach to the process and remain focused on creating additional efficiency across the organization. We also expect to advance our manufacturing footprint toward a capital-light model during 2019.

We are evaluating several scenarios that align with our business objectives and we will be providing updates. This transition is expected to improve gross margin in 2020. Importantly,

any related savings will be incremental to structural simplification.

We remain committed to our strategic investments, which will help us advance our strategy and maximize our shareholder value. This year, we expect to increase our investment spend to approximately \$100 million, with over 90% being recognized as operating expenses.

In 2019, we will be investing in each of our strategic priorities. To help restore profitability, we will continue to invest in IT transformation initiatives, including eCommerce and digital design and development capabilities.

In support of regaining topline growth, we will be investing in additional categories and play experiences for our Power Brands and the creation of high-impact online content.

As we lay the groundwork for capturing the full value of our IP, we will invest in other highly accretive business verticals, including content, gaming, and live events. We believe these investments will help transform Mattel and are confident that over time, they will provide the growth and returns you should expect from an IP-driven, high-performing toy company.

Moving down the P&L. We expect gross margin to increase year-over-year to the low 40s, primarily driven by continued progress toward structural simplification as well as improvements in our product line architecture. We expect this to be partially offset by input cost inflation related to plant labor and raw materials such as resin, zinc, and packaging.

While we do not expect the same magnitude of inflation that we experienced in 2018, we do expect approximately 100 to 200 basis points of negative impact this year. Additionally, our gross margin expectation assumes a negative impact of foreign exchange of approximately 50 to 100 basis points.

Sales adjustments are expected to be in line with the prior year. As for our operating expenses, we expect the advertising expense to increase year-over-year, while remaining within our historical range of 11% to 13% of net sales in 2019. This will be driven by increased strategic investments, including the development of online content to improve digital engagement.

We anticipate adjusted SG&A expenses will be down year-over-year, primarily by continued progress toward structural simplification. We also expect a benefit from the absence of Toys "R" Us bad debt recognized in 2018. These benefits are expected to be partially offset by an increase in strategic investments as well as merit increases. Incentive compensation is expected to be flat on a year-over-year basis. In 2019, we will continue to focus on increasing our profitability and expect adjusted EBITDA to increase to \$350 million to \$400 million, driven by improvement in gross margin and SG&A.

Now, turning to cash flow. As mentioned, we expect approximately \$50 million of severance and restructuring this year related to structural simplification. We expect our interest expense to be marginally higher than 2018 as a result of the full-year impact of the \$500 million of debt raised in May 2018.

We are reviewing our current tax structure as a result of tax reform. We will provide updates on a quarterly basis. However, for the first quarter, our current assumption is that both cash tax and tax expense will be in line with prior year.

This year, we expect our capital expenditures to be roughly in line with 2018 spend as we

continue to progress structural simplification, offset by our strategic investments. In 2019, we expect the change in net working capital to be neutral.

Our next debt maturity will be \$250 million in October 2020. We continue to actively manage our capital structure and are confident that we have sufficient liquidity to run our business.

In 2018, we began to see tangible results of our efforts. In 2019, we continue to focus on the methodical execution of our strategy of restoring profitability. Looking ahead, we expect to accelerate our profit improvement as we focus on regaining topline growth and transforming Mattel into an IP-driven, high-performing toy company. With that, I will turn it back over to Ynon. Thanks.

**Ynon Kreiz:** Thanks.

**Joe Euteneuer:** All right.

### **Ynon Kreiz**

*Chairman and Chief Executive Officer, Mattel, Inc.*

Thank you, Joe. Over the past year, we have begun laying the groundwork to capture the full value of our IP in the mid-to-long-term through adjacent highly accretive business verticals. As I have talked about before, the closest analogy that I can give you that can give you a flavor is Marvel.

Marvel used to be a comic book publisher until it fell into the right hands. Then, Disney took it to great heights and was able to uncover incredible franchises and reimagine them in many ways that other people did not think were possible. We are respectful not to call it an example, but it is a very good analogy.

At Mattel, we are seeing the same type of opportunity. Our brands in IP cover a broad range of audiences and genres globally, at scale. If you launch a new piece of content or IP, no matter who you are, you start from scratch and you have to work from the ground up. In many cases, we are starting with virtually 100% awareness, or at least very close to that. This is where Mattel Films comes in.

With the proliferation of broadcasting and streaming platforms, there is a growing demand for high-quality content driven by global brands. Today, more than ever, the entertainment industry is driven by global IP and the value of big brands and mega franchises has become more and more critical. Given the strength of our IP portfolio, we are in a unique position and have countless opportunities to attract and engage large audiences through quality content.

Mattel Films already has strong momentum. The division was created just six months ago and has made already several announcements for the first ever live-action feature films for some of our key franchises in partnership with major studios.

This includes Hot Wheels with Warner Brothers, Masters of the Universe with Sony, American Girl with MGM – we just announced it this morning – and, of course, the perennial Barbie with Warner Brothers, starring and co-produced by Margot Robbie. Margot is currently on set of another movie in Los Angeles, so she could not be here with us today. However, she wanted to share a few words. Take a look.

[Video message]

**Margot Robbie:** Hi, everyone. I hope you are having a fantastic time at the Toy Fair. I am so honored to be taking on the role of Barbie and to be producing a film that I really think will have a tremendous impact on children and audiences worldwide. I cannot wait to show you more. Have fun!

[End of video message]

I think we all agree Margot will make a perfect Barbie. These projects give you a good sense of where we are heading. And this is just the beginning.

Given all of the announcements related to Mattel Films, I would like to talk about how we are approaching these important projects from a commercial point of view. We are constructing a virtual studio, capital-light business model, that still provides Mattel with the opportunity for meaningful upside. We will collaborate with some of the best players in the industry, in terms of development, production, financing, marketing, distribution and we do not anticipate taking on financial risk.

To be clear, we are not building our own studio. Instead, our Mattel Films team will partner with major studios in key talent, quarterback the creative process, take a proactive role in the development of the story lines, and bring to the table our first-hand expertise and knowledge of these iconic brands. We are partnering with the best storytellers and the best creative talent in the world. They are the ones who will take the lead on these projects and bring our brands to the big screen.

Additionally, this morning, we announced our slate of 22 television programs, which positions Mattel very strongly in this area as well. The animated and live-action television programs in development are based on the company's iconic and globally recognized characters and franchises, as well as new IP, and they are created for multiplatform distribution. The slate of high-quality episodic content will encompass a broad range of themes, including action, adventure, humor, gameshows, music and more in a design to reach a very wide variety of demographics.

This is a multi-year turnaround. Our focus is on methodical execution and creating long-term value for our shareholders. After three consecutive quarters of solid, disciplined execution, we are clearly advancing our transformation to become an IP-driven, high-performing company.

Thank you again for joining us today. Please join us at the gallery and enjoy the tour. Thank you.

[END OF TRANSCRIPT]