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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Mattel, Inc. Third 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 to your speaker today, David Zbojniewicz, Vice President, Investor Relations. Please go ahead, sir.

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 third 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; 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 relating 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 2018 annual report on Form 10-K, 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 our third quarter earnings call. We had another strong quarter as we continue to make consistent progress on our strategy to transform Mattel into an IP-driven, high-performing toy company.

Before we get into further detail on our results for the quarter, I would like to briefly discuss the 2 other announcements we made today. As you know, in August this year, Mattel was made aware of a whistleblower letter. The letter, which had been sent to our external auditors, PwC, questioned whether there were accounting errors in historical periods and whether PwC was independent. In response, Mattel's Audit Committee launched an independent investigation into the allegations. That investigation is now complete and it determined that, in terms of financial impact, income tax expense was understated by $109 million in the third quarter of 2017 and overstated by $109 million in the fourth quarter of 2017, with no impact for the full year. Accordingly, we will amend our 2018 Form 10-K to restate the last 2 quarters of 2017 and certain related information. Please refer to the press release for more detail.

The error was noncash, did not affect operating income or EBITDA, and had no impact on our full year financials for 2017 or subsequent periods.

As a result of the investigation, the company has also determined that it has certain material weaknesses in its internal control over financial reporting. The company is taking remedial actions to address these issues as well.

As to the question of PwC's independence, the Audit Committee concluded that the objectivity and impartiality of PwC has not been impaired, and that PwC can continue as our independent auditor. PwC agrees with that conclusion.

We also announced today that our Chief Financial Officer, Joe Euteneuer, will be leaving the company after a transition period of up to 6 months. We are conducting a search for his successor as CFO. We appreciate Joe's important contributions to the company since he joined 2 years ago and look forward to continuing to work with him during the transition period.

With that, let me now turn to Mattel's performance for the quarter.

We remain focused on execution and are on track to achieve our goals to restore profitability and regain topline growth in the short-to-mid-term and to capture the full value of our IP in the mid-to-long-term.

Some of the more notable financial highlights compared to last year include the following: gross sales are up 3% as reported and up 4% in constant currency; adjusted gross margin improved 390 basis points; adjusted operating income improved $21 million; adjusted EBITDA improved $15 million; and adjusted EPS improved by $0.08.

Year-to-date operating cash flow has improved by $218 million. Progress in Structural Simplification has significantly exceeded our original target. As of the end of the third quarter, we achieved $826 million of run rate savings, and expect to exceed $854 million by the end of 2019. This was the fifth consecutive quarter where we achieved year-over-year improvements in profitability across all key metrics. This was also the second quarter in a row where we achieved revenue growth as reported, and the third quarter in a row in constant currency.

It is worth noting that the last time we saw back-to-back quarterly revenue growth was in 2013, which was our record revenue year. Based on the performance to date and the momentum exiting the third quarter, we are raising our guidance for the year, and now look to deliver adjusted EBITDA in the range of $400 million to $425 million.

Looking at gross sales in constant currency in the quarter, we grew in 5 out of the 6 categories where we operate. This includes the Dolls and Vehicles categories where we are a global leader, as well as the Action Figures, Building Sets and Games categories where we are a challenger.

The Dolls category was up 7%. Barbie gross sales increased 12%, marking eight consecutive quarters of growth for the brand. There was strong consumer demand globally across the Barbie line, with excellent product, marketing and retail activation. Polly Pocket, which was relaunched in 2018 and competes in the small dolls segment, also achieved double-digit growth. American Girl launched several growth initiatives at the end of the third quarter, and while sales for the quarter were down 14%, this is a significant reduction in the rate of decline compared to the first half of the year.

And, we continue to leverage our creative and innovative capabilities with the introduction of 2 new lines -- the BTS and Creatable World dolls. The BTS partnership is a great example of how Mattel can identify cultural trends and rapidly bring them to market around the world. Creatable World has had an overwhelmingly positive response demonstrating, once again, Mattel's thought leadership, groundbreaking creativity and societal impact.

Our Infant, Toddler and Preschool category was down 10%, largely due to expected revenue declines in Fisher-Price Friends. Sales in Fisher-Price Core, the largest component of the category, continue to improve and were down less than 1% including the 3% impact of the inclined sleeper recall. This is compared to last year's decline of 6%. We achieved positive sales growth internationally and are confident about the continued improvement and progress in Fisher-Price Core.

Fisher-Price Friends was down as we continue to right-size our third-party licensing portfolio. Power Wheels was also lower due to the declines in certain licensed products. Thomas & Friends declined, as we are simplifying the product range and look to turn the business around in 2020 when we celebrate the brand's 75th anniversary.

Our Vehicles category grew 15%, driven by a 27% increase in Hot Wheels. The growth was partially offset by the decline of Disney's Cars and Universal's Jurassic World vehicles post their movie launch years. Hot Wheels continued to remain the industry leader and is on pace for record sales this year. Hot Wheels Monster Trucks are performing exceptionally well. This is a new segment of the brand, and the consumer response to the product line as well as live events has been very strong. And we have expanded distribution of our innovative Hot Wheels id line through Target, following its second quarter launch at Apple stores and its debut on Amazon during Prime Day. This is a great example of our ability to innovate classic product lines and provide unique experiences combining physical and digital play.

Action Figures, Building Sets and Games together grew 13%, marking the third consecutive quarter of double-digit growth for these challenger categories. Action Figures was driven by Toy Story 4, which continues to do very well following the movie's release. MEGA had another positive quarter in the Building Sets category, providing innovative product offerings and competitive pricing while expanding its global retail distribution.

Our Games category grew across all regions, driven by card games with UNO and Phase 10. We are confident about the trajectory of our performance in this area. And while not in the quarter, we have seen a very positive response to the launch of UNO Braille in partnership with the National Federation of the Blind, reflecting our values of inclusivity and our ongoing commitment to purposeful play.

Looking at gross sales in constant currency by geography, we saw growth in 3 out of 4 regions. Overall, growth has been broad-based across channels, customers and brands. North America was down less than 1% including the 1% impact of the inclined sleeper recall. The international segment was up 13%. EMEA grew 15% versus a decline of 8% in the same quarter last year. This is despite the industry being down in the region this year. While European retail in general continues to face several challenges, we are gaining share through successful partnerships, execution of our channel strategies and improved omnichannel capabilities.

Latin America continued its strong growth and maintained its leadership position, with sales increasing 10% driven by the region's largest markets -- Mexico and Brazil. And Asia Pacific was up 15% versus last year's decline of 38%. This was achieved through growth across our top 3 countries, Australia, China and Japan, as well as through strong results in Southeast Asia.

Tariffs have had a de minimis impact on our results and are not expected to have a material impact for the rest of this year. We have worked very closely with our retail partners to prepare for the potential implications of tariffs in the short-to-mid-term. We continue to monitor trade negotiations and assess the potential effects on the industry, retailers and consumers.

As we approach this holiday season, we believe we are well positioned across all our categories and regions with innovation throughout the entire portfolio. We have increased our presence on many of this year's Holiday Top Toy Lists and have several new products, brand launches and marketing campaigns to amplify retail executions.

We have also continued to make strong progress in our mid-to-long-term strategy to capture the full value of our IP, with 3 key developments on this front. We announced a live-action film with Paramount and multiple Academy Award winners, actor Tom Hanks and screenwriter, Akiva Goldsman, to develop a feature film based on Major Matt Mason. We also announced a partnership with Academy Award-nominee Daniel Kaluuya and production companies 59% and Valparaiso, to co-produce a live-action film based on Barney, Mattel's iconic purple dinosaur. This is the eighth theatrical movie project that Mattel Films has announced. Additionally, we reached an agreement with Netflix for the production and distribution of a Masters of the Universe animated series, to be produced by actor and filmmaker Kevin Smith.

In closing, our third quarter performance demonstrates the continued momentum of our multi-year turnaround and consistent progress in transforming Mattel into an IP-driven, high-performing toy company. We are executing very well on our strategy to restore profitability, delivering the fifth consecutive quarter where we achieved improvements in reported operating income, EBITDA, gross margin and EPS. We are starting to see positive revenue trends with growth for the second quarter in a row as reported, and for the third straight quarter in constant currency. And we continue to make meaningful progress in laying the groundwork to capture the full value of our IP. We are encouraged by this momentum, as we remain focused on execution and the creation of long-term shareholder value.

Now, I would like to turn the call over to Joe who will cover the financials in more detail and give you updated guidance based on our recent performance.

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

Thank you Ynon and good afternoon everyone. I would like to provide you more detail on our third quarter results, and updates to our 2019 full year guidance.

As Ynon shared, gross sales were up 3% year-over-year as reported, and up 4% in constant currency. We also drove meaningful growth this quarter in 5 of our 6 categories and increased sales in 3 of our 4 regions. Our 3% growth in the quarter included a 1-to-2% benefit from increased direct import sales. While this benefit effectively shifted sales from the fourth quarter into the third quarter, we still had growth, even absent this shift. As always, we work closely with our retail partners throughout the calendar year and make adjustments based on market conditions. We believe growth in direct imports reflects retailers' confidence in our product innovation and service levels, as well as their improved visibility into the retail environment post Toys "R" Us.

Reported gross margin was to 46.3% of net sales, up 370 basis points from the 42.6% in the third quarter of 2018. Adjusted gross margin was 46.9% of net sales, up 390 basis points from the 43% in the third quarter of 2018. The significant improvement in adjusted gross margin was primarily driven by Structural Simplification savings. Advertising, as a percent of net sales, was 11.5%, which was flat year-over-year. We continue to apply a disciplined approach to advertising, focusing on greater utilization of digital platforms and content.

Reported SG&A was $366 million, an increase of $40 million, or 12% year-over-year. While we realized incremental Structural Simplification savings of $23 million and incurred lower severance and restructuring expenses versus Q3 2018, these benefits were more than offset by several factors. There was a $47 million increase in incentive compensation due to improved business performance year-to-date. Accordingly, we are recognizing our full year incentive accrual expense more evenly between the third and fourth quarters relative to 2018. Additionally, Q3 2019 did not have the benefit of the $13 million of Toys "R" Us bad debt recovery that we booked in Q3 2018. And we booked $3 million of additional fulfillment and legal fees this quarter, associated with the inclined sleeper product recalls. Year-to-date, we have expensed $8 million of SG&A related to the recalls.

Year-to-date, across the P&L in total, we have expensed $34 million related to the recalls, before taking into consideration the $30 million to $35 million in revenue reduction. To the extent there are additional recall related costs in the future, we will provide updates accordingly.

Adjusted SG&A was $351 million, an increase of $51 million, or 17%. The year-over-year increase in adjusted SG&A was due to the incentive compensation accrual timing and the absence of the 2018 TRU bad debt recovery, partially offset by the $23 million of incremental realized savings from Structural Simplification.

Adjusted operating income was $174 million, an improvement of $21 million, or 14% compared to the prior year. Year-to-date, adjusted operating income has improved $272 million over last year's adjusted operating loss of $225 million.

Adjusted EBITDA was $248 million, an improvement of $15 million compared to $232 million in the prior year. Year-to-date, adjusted EBITDA has improved $252 million over last year's $16 million.

The improvement in both adjusted operating income and adjusted EBITDA year-to-date was driven by revenue growth and Structural Simplification savings, which improved both margin and SG&A.

Before moving on to the balance sheet, I'd like to note that separate from the whistleblower matters, we also elected to revise 2019 and prior periods for certain unrelated immaterial out-of-period adjustments, which do not require us to amend previous filings. Nonetheless, these adjustments will be reflected in the 2019 third quarter Form 10-Q and the amended 2018 Form 10-K, as well as the financial history page on our Investor Relations website.

Moving on to the balance sheet. We ended the third quarter with a cash balance of $218 million, and our cash position net of short-term borrowings improved by $54 million versus 2018. We ended the third quarter with $230 million of short-term borrowings under our ABL credit facility. Accounts receivable decreased 2%, despite higher sales in the quarter, and resulted in a 4-day reduction in days sales outstanding to 78 days. Owned inventory decreased 3%. We continue to tightly manage our inventory and partner with our retailers to ensure that they also have the right inventory levels. We believe our owned inventory and our retailer inventory levels are well positioned for the remainder of the year.

Moving on to cash flows. Year-to-date cash flows used for operations improved by $218 million to $514 million, primarily driven by a lower net loss excluding the impact of our noncash charges. Year-to-date capital expenditures are $76 million compared to $111 million last year.

As Ynon said, at the end of the third quarter, we have already achieved $826 million of Structural Simplification run-rate savings, exceeding our target of $650 million -- well ahead of schedule. And we expect to achieve more than $854 million of run-rate savings by the end of 2019. Some of the savings we previously expected to realize in 2020 will now be accelerated into the 2019 P&L. As a result, we expect to benefit from $303 million of realized Structural Simplification savings this year, of which $272 million will benefit adjusted EBITDA.

We are also continuing to implement our Capital Light model, which includes not only the optimization of our manufacturing footprint, but our entire supply chain. We will share key developments as they are executed, subject to competitive and confidentiality considerations. In the third quarter, Capital Light resulted in $16 million of severance and restructuring expenses. We expect additional implementation costs to impact the P&L in Q4, with benefits beginning in 2020.

We continue to make strategic investments to grow the business and improve profitability. In the third quarter, we spent $23 million on strategic investments, compared to $9 million in the prior year. Investments classified as operating expenses were $18 million, a $9 million increase over the prior year. These were primarily related to our IT transformation and brand growth opportunities. Year-to-date, we have spent $50 million on strategic investments, compared to $27 million in the prior year. Year-to-date investments classified as operating expenses were $36 million, a $9 million increase over the prior year.

Clearly, the year-to-date results demonstrate meaningful progress across all of our financial metrics. With that in mind, let me provide you with our improved guidance for 2019.

Starting with gross sales. For the fourth quarter, we expect gross sales to be down slightly, due to the continued foreign exchange headwinds, fewer holiday shopping days compared to last year, a more competitive marketplace, and the timing impact of direct import sales in Q3. For the full year, given our positive revenue performance year-to-date, we are raising our original guidance and now expect full year gross sales in constant currency to be up slightly versus the prior year. Given a low-single-digit negative impact from foreign exchange, we expect full year gross sales as reported to generally be flat versus the prior year. Achieving this will be a major accomplishment and an important milestone in our turnaround after 5 consecutive years of revenue decline.

Sales adjustments are not expected to change significantly, and will continue to be in-line with the prior year as a percentage of sales. We expect adjusted gross margin for the full year to improve by approximately 100 basis points above our year-to-date margin of 42.9%. This is driven by additional realized savings from Structural Simplification and lower anticipated inflation.

Advertising expenses for 2019 will increase year-over-year, and are now expected to be roughly 12% to 13% of net sales. In the fourth quarter, we expect a significant increase in the dollar amount, and percentage of spend, driven by the timing of strategic investments related to digital content.

Adjusted SG&A is still expected to be down, both on a dollar and percentage of net sales basis. The expected savings from Structural Simplification, and the benefit of $32 million of Toys "R" Us net bad debt expense recognized in 2018, will be partially offset by our annual merit increase and general inflation. In addition, we anticipate incurring higher incentive and equity compensation, driven by improved business performance. As a result of these factors, we expect the total adjusted SG&A for 2019 to be just over $1.3 billion, a $75 million to $100 million reduction from last year.

Given the positive factors I just discussed, we are raising our adjusted EBITDA guidance to $400 million to $425 million. This would more than double 2018's adjusted EBITDA. The increase in adjusted EBITDA guidance is driven by Structural Simplification savings, which improved gross margin and SG&A, as well as increased revenue. Relative to our original Structural Simplification target, the program is delivering both greater savings in total, and more realized savings in the 2019 P&L.

Additionally, while we are experiencing product cost inflation, we expect it to be lower than our original guidance. These benefits to adjusted EBITDA will be partially offset by higher advertising expenses, as well as additional SG&A, primarily driven by higher incentive compensation.

Adjusted operating income for the full year is now expected to be positive at year-end. Looking beyond operating income, interest expense is still expected to come in marginally higher than in 2018. And as it relates to taxes, the guidance we discussed earlier this year has not changed. We still expect income tax expense of approximately $75 million to $100 million.

Turning to the balance sheet and cash flows. As we restore profitability, we continue to expect to achieve positive cash flow from operations this year for the first time in 3 years. We still expect the change in net working capital to be approximately neutral. Capital expenditures are expected to be in line with 2018. We remain confident in our capital structure, which includes the ABL credit facility, and that we have sufficient liquidity to both run the business efficiently and to make strategic investments to grow. At the appropriate time, subject to market conditions, we plan to return to the debt market to refinance the $250 million of senior notes maturing in October 2020.

Turning to strategic investments, we still plan to spend approximately $100 million as originally guided, with roughly 70% now expected to be operating expenses.

In closing, the company's great performance in the third quarter and year-to-date, along with our ongoing consistent execution, will allow us to continue to drive value on a going forward basis.

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

Thank you, Joe. Before we begin Q&A, I want to point out that we will not be addressing detailed accounting questions related to the whistleblower investigation at this time. We will file an amended 2018 10-K addressing these accounting matters, as well as the 2019 Q3 10-Q, on or before the November 12 filing deadline for the 10-Q. As Ynon mentioned, information regarding the accounting matters can be found in the press release made available today. We will schedule a call to answer any questions you may have addressing the amended 10-K after its filing. We will now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Greg Badishkanian with Citi.

Frederick Charles Wightman - *Citigroup Inc, Research Division - Assistant VP & Analyst*

This is actually Fred Wightman on for Greg. I was just hoping you could dig into the direct import business in the quarter. I think you called out a 1% to 2% benefit. Can you talk about why you might be seeing such different trends in the direct business versus some of your peers in the market?

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

We're focused on our own execution and our own numbers, and we did see strong performance in direct imports. As we said in the prepared remarks, we always work closely with our retailers throughout the calendar year and made adjustment based on the changing -- on the market conditions. We do believe that growth in direct imports reflects retailers' confidence in our product, in our innovation and service levels. Also they had improved visibility into the retail landscape post the Toys "R" Us situation. So all in all, we did see an increase, and believe we are suited to continue to support this part of the business.

Frederick Charles Wightman - *Citigroup Inc, Research Division - Assistant VP & Analyst*

Okay. And then I understand that you're starting to lap some tougher compares and you could talk about some of the pull forward into 3Q. But if we just look at the implied guide for 4Q, is there anything in the market that's giving you some caution or just seems to imply some pretty significant declines?

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

So you got to remember, from an industry perspective, we -- all of us are facing the fact that they're going to be fewer shopping days this year. From us, as a company, remember, we're in the midst of turning around American Girl, so we feel the slight negative pressure in regards to our overall numbers because of American Girl. And then from a fourth quarter perspective, we did see that 1 to 2 percentage, 100 basis point shift from fourth quarter to the third quarter on DI, and then finally, you just have the impact of foreign exchange.

Operator

Our next question comes from Felicia Hendrix of Barclays.

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

Just wondering, I think -- I don't think I heard you guys go through any POS data or detail. So maybe you can kind of walk us through that by segment would be helpful.

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

Sure. I could start. Joe, you can chime in. Yes, I mean, in general, we were really pleased with our POS. We particularly were very excited with our strength in the doll portfolio. POS was up high single digits in that category, clearly led by the success of Barbie, which has been really terrific. On the balance of the portfolio also within Vehicles, we had a very strong performance in Hot Wheels, which was up [mid single digits. And the overall Vehicles category was down mid single digits] (corrected by company after the call). Let's see, as we continue to move through the quarter on POS -- in combined Action figures, Building Sets, Games, our POS was up high single digits, which is also really exciting in the context of our challenger categories. And I think in the context of our challenging category, which is infant, toddler and preschool, while we were down, we really feel very good about the Fisher-Price core business, which outside of the recall was a good performer, in fact, would have been [down] (corrected by company after the call) single digits without the recall. So all in all...

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

No. I was just wondering, is that global? Or is that domestic? All of this preexisting.

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

Those are all -- yes, that's all global. That's all global.

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

Okay. So just -- it looks like a lot of your growth came more from international in the quarter than domestic, same as last quarter, but just kind of trying to understand more the domestic picture. And then also Hot Wheels, you didn't give us POS there.

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

Sure. Let me cover on the Hot Wheels piece of our business, Hot Wheels was very, very strong, globally up [27% in sales and POS was up mid single digits. And for the quarter, our North American business was down mid single digits, which also included the impact of the Fisher-Price recall] (corrected by company after the call).

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

Right. But that's -- and so POS?

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

POS in North America was down [mid] (corrected by company after the call) single digits as a whole. Actually, this is very in line with our expectations.

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

Okay. Great. And then, Ynon, just getting back to the DI, can you just help us understand typically in your third quarter, what percentage of your business is DI versus what it was this year in the third quarter?

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

We don't provide this information specifically, but I can tell you there was no surprise and no disruption. This was in line with expectation and as really we were planning for, for the quarter.

Operator

Our next question comes from Tim Conder with Wells Fargo.

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

Yes. Yes, just a couple, gentlemen, and I want to follow-on on the DI here. Ynon or Joe, whoever wants to take this, the shift was it all driven by U.S. year-over-year the increase in DI, can you say that? And then any quantification that you can give us as the impact to gross margins from that?

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

So there was no sort of regional basis on the DI. It was basically up just basically 100 to 200 basis points. It's a shift from fourth quarter to third quarter. The impact on the margin is pretty immaterial on it from a gross margin basis. And remember, this comes from the detailed planning that goes on by the commercial organization with all of our retail customers to understand whether they want direct imports or whether they want to go trade. And everybody understands the difference that when you go direct, you're taking on the inventory risk, but you're getting a slightly higher margin on it. So we work closely with our retailers to maximize the profitability and growth, and we had no unusual trends and pretty consistent on a year-over-year basis. And so we feel pretty good about where we are.

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

I would also just want to add -- sorry, Tim, just one quick comment that the shift of 1% to 2% in the quarter from the fourth quarter to the third quarter, obviously, helped growing gross sales, but we would have grown anyway without it because our growth, as you know, as reported is 3% and 4% in constant currency. So this is not, in itself, the reason that we showed growth in the quarter.

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

Okay. Okay. And then a couple of housekeeping, if I may, gentlemen. Richard, just wanted to double check in response to Felicia's question. The infant, toddler, preschool, can you repeat that POS number on a global basis?

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

Sure. The let's see, infant, toddler, preschool POS we were down low double digits worldwide.

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

Okay. Okay. Okay. And then just a couple more housekeeping, gentlemen. Anything you can tell us about the contributions to dolls of the KTF stuff? And then the Hot Wheels, anything similar there to the Star Wars contribution in the quarter?

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

Sure. We continue to show strength in the Doll portfolio, as indicated, certainly, by the high single-digit growth for the category and of course, largely led by the momentum that we have on Barbie. Our current trend has been really phenomenal. We're in our eighth quarter of consecutive growth year-over-year. By the way, 7 of those quarters have been double-digit and largely led by product and positioning, which we're really very very pleased with linking Barbie to pop culture. The continued growth that we have across the product portfolio extends in every segment, the family segment, estate, Fashion Dolls, even our collector business has been very very strong. Overall, in the other dolls category, as Ynon mentioned, we're very pleased with Creatable World, which was a phenomenal launch. In fact, over the first few days of the launch, we had matching impressions to that of Barbie's 60th celebration. So real valid indicator of not only our ability to launch new brands and garner great PR, but ultimately, lead through innovative new brands.

Polly Pocket continues to be one of our fastest-growing doll brands. It's actually the third fastest-growing doll brand per global NPD. And BTS, as we mentioned as well, is really an exciting new part of our portfolio. The band is back on the road actually and has been touring in its third leg. We just released the mini vinyl collection. It's doing very well at retail and exceeding our expectations in that particular category.

A real quick mention, obviously, you asked about Hot Wheels, we're incredibly proud of the momentum that we continue to have on Hot Wheels as we've reported gross sales up 27%. It's a really impressive stat when you consider that we're up against the 50th anniversary from 2018. So real indication that we're growing from strength to strength, and it's really on a global basis. So very, very pleased. The marketing on that brand has been phenomenal, one of the key events called the Legends Tour continues to be incredibly successful in its second year and awesome new product line, probably one of the most exciting sets, new Colossal Crash, Downhill Race & Go also in Monster Trucks as part of the drivers for this year. So all in all, really powerful momentum on our most powerful brands.

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

Okay. No, no, I appreciate that. But just any -- and again you guys are doing a great job, so congrats there. But again the BTS is new and then the Star Wars had to be on shelf by October 4, so on the die-cast vehicles there, any color you can give us on those 2 properties in particular?

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

We can't go into the detail at that level, but as I mentioned, we're very excited about the products and the marketing across our portfolio and in particular in the doll and Vehicle categories.

Operator

Our next question comes from William Reuter with Bank of America.

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

My first question is, you mentioned that you didn't expect much impact from the tariffs, I'm wondering whether this was just due to the timing of when 4A and 4B came in? Or whether this was due to negotiations with both your retail partners and your manufacturers?

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

So we have a combination of things going on. So remember list 3 -- through list 3, it's been de minimus for us. We've really had nothing to, any impact from it. In regards to going forward, we're not sure how it's ultimately going to end up and whether the December date's still going to hold, but we have done a lot of work with our retail partners to figure out ways to potentially mitigate the tariff if it does come into place. So we feel very good about the proactive reaching out to our retail partners and how to -- figure out how to minimize this to the extent possible. So we feel as good as we can going into something that's still an unknown and can constantly shift, but to date, through list 3, which impacts us, is basically de minimis.

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

Okay. And then just 1 follow-up. You guys have, obviously, done a great job cutting costs all over your P&L. As you guys think about what the gross impact of tariffs, if they, continue to go on as they are now currently sitting, I mean, based upon your conversations, do you have some sort of a big ballpark guess on what do you think you could mitigate through actions?

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

We've not given that number out, just because it's such a moving target, and like you said, you can get carve-outs of things and stuff. So rather than get into the specifics of the actions we would take to help mitigate the impact, we just would wait and see sort of what the ultimate rule, if it does come out and then we can adjust it at that time.

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

I would just add that -- to what Joe said that we believe we are in a relatively better position than the overall industry average, with less than 2/3 of our toys that are sold in the U.S. imported from China, versus an industry average of around 85%. We have developed contingency plans and have worked closely with the retailers to ensure that we are aligned on our approach to mitigate the tariffs. As you know, we are in the thick of designing an organization that will become more flexible and can respond to exogenous changes, whether it's about China or tariffs or any other parameters that change in our landscape.

And as it relates to tariffs, we do have several mitigating factors or actions that we can take such as price increases, working with alternative suppliers, working with our product development and procurement teams to optimize our product mix and sourcing options and also transition to different manufacturing structure, as I said, to give us the flexibility and mobility to optimize the outcome for us.

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

Yes. No, I asked because the tone of your commentary is much more positive than others in the industry and sounds good.

Operator

Our next question comes from Michael Swartz with SunTrust.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

Just wanted to ask a question quickly. As it relates to your guidance, it looks like EBITDA coming up big part of that was a shift in realized savings, some of that stuff from 2020 coming into 2019, it looks like it's about $30 million to $35 million versus what you'd expected prior. Maybe give us a little color on, I guess, what's behind that shift? And I guess, why it accelerated faster than you had anticipated?

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

I mean the shift is really totally focused to execution. I mean we meet on Structural Simplification savings every week, and our sole goal is to look at each one of these workstreams and figuring out how to accelerate it sooner rather than later and what's standing in its way. I mean it is a discipline that Ynon and I have partnered on since we started this program, and we feel very good about where it's ending up and the execution we've gotten done to date.

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

And I would say -- sorry, Michael, just to say that this is a project that has a lot of support and ownership by every constituent in the company. And as you know, after we exit 2019, there would be more savings coming from our Capital Light model. So we are not done optimizing and driving efficiencies in the operations.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

And then just maybe for, Ynon, just with regards to the Masters of the Universe series for Netflix that you announced, could you give us maybe a little bit of color on timing of that project? And maybe how the economics will work?

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

Yes. I can't get into specifics of this one show, but in general, as you know, this is part of our mid-to-long-term strategy. And it's exciting to see the progress and the momentum we have in all of those deals, but it is meant to be more mid-to-long-term. With that said, the way these deals work is that we do not take any financial risk. For the most part, we'll be in profit as we enter any of these shows or projects. We typically control -- have creative control or negative control. In other words, our partner cannot do anything or any material -- take any material decision or make any material change to the credit framework of the property. Our approach is to partner with the best creators out there per project, per genre, and also with the best distributor per project, per genre.

And in the case of films or television, we typically would get a license fee that is tied into the property itself. We have producers fees and there is also different forms of upside participation economically in the event of success with escalators. So all in all, we believe we have a very balanced model in terms of risk and rewards, and this is before you even get into the benefit we can drive from other -- from lifting toy sales and consumer product sales. And you will see -- as we said before, you will see more projects coming both on the film side as well as episodic content.

Operator

Our next question comes from Linda Bolton-Weiser with D.A. Davidson.

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

Just 2 questions. First of all, I think when you were talking about your outlook for the fourth quarter, you did mention in your list of items like competitive environment. So can you just give a little more color, I don't know if I caught exactly what you were referring to there.

And then secondly, Ynon, you've done a lot. So far you've done the cost savings, you started the process of turning around American Girl, you've set the stage for these movies, et cetera. What's the next phase so to speak? Is it pursuing toy categories you're not in? Is it doing more on the entertainment, media side? Can you just talk about kind of what big picture things are in your mind kind of going forward?

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

Okay. I'll let Joe answer the first -- actually, Richard will answer the first question.

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

We'll all answer. I'll start and anyways you can chime in. Linda, as always this is a highly competitive category of business and the industry is always launching new innovation and ideas. As we approach the holiday season, we really do believe and our trends are suggesting that we are well positioned across our categories and regions with a great degree of innovation, driving the success so far across the portfolio. We've increased our presence on many of the holiday toy lists, which drive consumer interest and retailer credibility. We've got great new products within brands and new launches, marketing campaigns and amplified digital dialogues to ultimately amplify our demand creation model and retail executions.

Most importantly, we work really closely around the world with our retail partners. Our sales organization and retailer partnership is bar none best-in-class, optimizing the various different demand creation and new product levers to drive the business. And while we obviously compete in a more competitive industry and category, the new entrants to date, the digital dialogue that we have and the credibility that we have going into the fourth quarter is encouraging. So we're bullish as we head into the last lap here and hopefully consumers will be as excited as we are about our portfolio.

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

And Linda, as it relates to your second question, as you know, we laid out a very clear and very focused strategy that has 2 phases, short-to-mid-term and mid-to-long-term. In the short-to-mid-term, our priorities were to restore profitability and drive topline growth. And I think it's fair to say, after 5 consecutive quarters of improving profitability and now 3 consecutive quarters of driving topline growth in constant currency, or 2 as reported, things are working. The turnaround is working, and we are able to now show consistent methodical progress quarter after quarter after quarter, and that remains our focus to continue to drive performance across these 2 priorities.

At the same time, as you know, we are positioning the company to be able to capture value from our incredible catalog of franchises. I think there is obviously a lot of momentum there, even though it's meant to be more long-term or mid-to-long-term. There is a lot of interest. We're able to enter big projects with some of the world's most creative talent in each of the genres that we operate. So it is exciting. There's a lot going on. There's a lot that's going on behind the scene. There's a lot going on that we haven't been able to share with you, but our focus is to remain very diligent and execute to the strategy quarter after quarter after quarter. We're not celebrating victory. We have still an important quarter ahead of us. We want to do well for the year. And after that -- and after the end of the fourth quarter, we'll enter another year. But, I think, it's fair to say that we're now in a much, much better position than we were just a few quarters ago. Every day that goes by, we're improving our cash position. As we said, we're going to be cash flow positive from operations this year, and we're not far from being free cash flow positive as a whole. And when that happens, this will be an important juncture to mark the turnaround, but we are confident about where we are and remain focused on execution.

Operator

Our next question comes from Jaime Katz with MorningStar.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

I wanted to hear a little bit about the infant and toddler category. I know it was mentioned that you're looking for a turnaround in that business in 2020. And I was wondering if there was some insights into efforts you might be taking out to help give us a little bit of confidence that this segment might improve? And whether there might be some benchmarks we can sort of look forward to follow the progress?

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

Sure. So look, it is a tough category. You could look at the NPD data and it's certainly the biggest category out there, but it's also one of the toughest categories out there. On Fisher-Price, which is the largest brand within the category, you could see the improvement and the conversations that we've had start to formulate in proof points. We are on track for the stabilization of Fisher-Price, and we're really starting to see some positive signs for the brand globally. As I mentioned, if you exclude the recall, we actually would be up single digits in Fisher-Price, which would have been a great report, but unfortunately, we obviously have had that recall, but we continue to strive and make some progress.

If I tell you that there is a lot of indications, but what I would look at is product performance. We're seeing great traction on some of the new product innovation launches that we've had. LINKIMALS in particular is off to a really strong start in the third quarter and it's responding incredibly well to retail promotions in most major markets. We have a variety of other segments that we launched this year that are getting traction. And as we head towards the fourth quarter, our new brand platform that we recently launched, Let's Be Kids, in the U.S., which started at the end of September, has gotten great traction, the hero brand film with 7 different product spots, we've gotten some really terrific retail partnership and activations that will continue around this campaign, terrific retailtainment events happening at Wal-Mart and certainly, Target and great programs at Amazon as well as our partnerships throughout the world.

Within the infant, preschool category, our challenging brand is Thomas, which we've talked about actively working to improve the product portfolio. One of the indications of this is we're rolling out a singular core system of play, which combines both push along and motorized play on a single track system. It's a lot of detail, and I recognize that in the answer. But truth be told, we had various different track systems for Thomas, and we believe ultimately, it actually distracted the consumer from the actual system of play. So we're working very hard at strengthening the product portfolio as well as continuing to build up our retail presence in merchandising and new content.

As Ynon mentioned, 2020 marks Thomas' 75th anniversary. So you could look for redefining content, new product and some great reveals that we'll share as time suggests. But ultimately, we believe in the category, Fisher-Price is a leading brand within the category, and we will certainly report at the end of the year how our products and our portfolio performed.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

And then do you have any projection for where you expect owned inventory to be towards year-end? I know it was down sort of mid-single digit rate this quarter year-over-year. Do you expect that to be down similarly at year-end?

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

I mean right now, we're looking at inventory to be possibly flat on a year-over-year basis. It's hard to predict exactly because as you start closing out the year, you start positioning yourself for the first quarter. And so we want to make sure that our retailers have the optimal inventory they need to kick off the New Year along with the optimal inventory to close out this year strong. So it's a balancing act, but we are something that as you see over the last couple of quarters have really been focused on managing inventory not only at our own locations, but at our retail locations and feel very, very good about our positioning for the back quarter of the year.

Operator

Our final question comes from Arpine Kocharyan with UBS.

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

It seems on clean comp basis, you still grew about 2% in Q3, excluding sales pull forward. I'm trying to understand what was corresponding global constant currency POS? I don't think I heard overall constant currency global POS number, apologies, if I've missed. And then I have a quick follow up.

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

Yes. We did not give that number. We gave the global POS numbers, but not anything in constant currency.

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

So what's the global POS on overall portfolio?

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

Overall -- I mean it's Richard. Overall, our global POS in the third quarter was down low single digits worldwide. We had a mix of performance: Dolls [up high single digits, as we mentioned; Vehicles down mid single digits; Action Figures, Building Sets and Games were up high single digits] (corrected by company after the call).

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

And by the way, those are constant currency, my correction. Yes, so the POS numbers are in constant currency, yes. And Richard's right...

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

And then -- yes, go ahead, sorry.

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

No, no. Go ahead.

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

I have a quick question for Ynon. I mean given the potential tariff enactment, is there any change to your asset-light manufacturing strategy? I guess what I'm trying to understand is, does it still make sense now to not own manufacturing in places like Mexico?

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

So we are taking a comprehensive look without being prescriptive about certain actions. We did say before that in some cases, it would make sense to retain ownership of some factories. One obvious example is Hot Wheels for the simple fact that there is no one else in the world that can manufacture 550 million die-cast cars a year at our level of quality and price. So we are taking a holistic approach. The objective is to have a modular, flexible model that will allow us to respond to changing conditions. And as I said, it's not -- this is not just about tariffs or about China. This is generally to be able to respond and create an agile, competitive, dynamic organization that can optimize different scenarios.

We have an excellent, world-class supply chain team right now in place. We feel very confident about the direction we are heading in supply chain. We see supply chain not just as an opportunity to reduce cost, but also to drive topline, and we are hearing -- we're getting accolades from our retail partners about the improvement in service levels and quality of performance that people that have been before me say we haven't delivered in years.

So we feel that this is now becoming a competitive advantage. Not that long ago, we used to be criticized that we're too big, we're too bureaucratic, too slow, too costly. We believe that size and scale is an opportunity, is an advantage, and shouldn't be a detraction. And obviously it's about the way you manage and leverage your scale and capabilities, and we believe we're heading in the right direction. We're not done. There is more work to do, but we're clearly heading in the right direction.

Operator

Thank you. This concludes today's question-and-answer session. I would now like to turn the call back over to Ynon Kreiz for any further remarks.

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

Thank you, operator. And before we conclude the call, I just want to say a few additional words. We provided today quite a lot of information for you to digest between a very strong quarter, the conclusion of the whistleblower investigation and the announcement of a CFO transition. I want to take this opportunity to thank Joe, again, for his important contributions to the company, and I look forward to continuing to work with him during the transition period.

I also want to emphasize that the entire Mattel team remains focused on our strategies to restore profitability, regain top line growth and ultimately, capture the full value of our IP. Our improved 2019 guidance demonstrates our confidence in the business and continued momentum that we are driving. We are encouraged by this progress and remain focus on execution and the creation of long-term shareholder value. And with that, thank you all, and I'll transfer it over to Dave.

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

Thank you, Ynon, and 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 7239237. 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.
