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MAT.OQ - Q1 2021 Mattel Inc Earnings Call

EVENT DATE/TIME: APRIL 22, 2021 / 9:00PM GMT

OVERVIEW:

Co. reported 1Q21 net sales of $874m, reported operating income of $31m, adjusted operating income of $28m and adjusted EPS of negative $0.10. Expects 2021 net sales to increase 6-8% in constant currency.

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PRESENTATION

Operator

Thank you for standing by, and welcome to Mattel's First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

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

David Zbojniewicz - *Mattel, Inc. - Vice-President 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 Anthony DiSilvestro, Mattel's Chief Financial Officer. As you know, this afternoon, we reported Mattel's 2021 first quarter financial results. We will begin today's call with Ynon and Anthony providing commentary on our results. After which, we will provide some time for Ynon, Richard and Anthony to take your questions.

To help supplement our discussion today, we have provided you with a slide presentation. Our discussion, slide presentation and earnings release reference non-GAAP financial measures, including adjusted gross profit and adjusted gross margin; adjusted other selling and administrative expenses; adjusted operating income loss and adjusted operating income loss margin; adjusted earnings loss per share; earnings before interest, taxes, depreciation and amortization or EBITDA; adjusted EBITDA; free cash flow; free cash flow conversion; leverage ratio; and constant currency. In addition, we present changes in gross billings, a key performance indicator. Please note that we may refer to gross billings as billings in our presentation and that gross billings figures referenced on this call will be stated in constant currency, unless stated otherwise. In addition, please note that our accompanying slide presentation can be viewed in sync with today's call when you access it through the Investors section of our corporate website, corporate.mattel.com.

The information required by Regulation G regarding non-GAAP financial measures as well as information regarding our key performance indicator is included in our earnings release and slide presentation, and both documents are also available in the Investors section of our corporate website.

Before we begin, I'd like to remind you that certain statements made during the call may include forward-looking statements related to the future performance of our business, brands, categories and product lines. These statements are based on currently available information and assumptions, and they are subject to a number of significant risks and uncertainties that could cause our actual results to differ from those projected in the forward-looking statements, including risks and uncertainties associated with the COVID-19 pandemic. We described some of these uncertainties in the Risk Factors section of our 2020 annual report on Form 10-K, 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 for joining Mattel's first quarter 2021 earnings call. I hope that you and your families are staying healthy and safe.

This was another record quarter for Mattel with truly exceptional results as we continue to improve profitability and accelerate top line growth. We are off to a very strong start to 2021. Here are some key highlights for the first quarter compared to prior year. Net sales were up 47% as reported and 46% in constant currency, the highest quarterly growth rate we have on record in over 25 years and the highest first quarter sales in absolute dollars since 2015. Adjusted gross margin improved by 350 basis points and reached 47%, the 11th consecutive quarter of improvement on a year-over-year basis. Reported operating income was $31 million, an increase of $181 million and the first positive first quarter since 2014. Adjusted operating income was $28 million, an increase of $161 million. And adjusted EBITDA was $89 million, up $155 million.

This quarter was particularly strong in that we achieved double-digit growth in gross billings in each of our 4 regions with remarkable performance in North America and EMEA, double-digit growth across all product categories and strong double-digit increases in our 3 power brands: Barbie, Hot Wheels and Fisher-Price and Thomas & Friends as well as American Girl.

In the first quarter, we significantly outpaced the industry with total company POS up more than 30%, benefiting from very strong consumer demand for our products. According to NPD, for the third quarter in a row, Mattel gained share globally driven by strong performance across all regions. We also saw growth across all sales channels with especially strong performance in e-commerce as we continue to accelerate our progress in this strategic channel. In the first quarter, e-commerce POS grew 58% year-over-year, representing 28% of our total POS in the quarter. While our exceptional growth this quarter was partially driven by favorable year-over-year COVID-related comparisons, we believe the strength of Mattel's results is attributable to the strength of our brands, quality and breadth of our product, our world-class supply chain, global commercial capabilities and very effective demand creation in close collaboration with our retail partners.

The strength of our performance is also evident when comparing our 2021 results to 2019 before COVID, with net sales being higher by 27% in the first quarter of 2021 versus the first quarter of 2019. Our market share gains for the third consecutive quarter also demonstrate that we are not just riding the wave but growing well ahead of the industry and driving the momentum. We expect to continue to gain market share through the rest of the year. This consistent performance and momentum reflect the success of the turnaround. We are very confident about our business trajectory and remain focused on executing our strategy to transform Mattel into an IP-driven, high-performing toy company.

Looking at the first quarter gross billings in constant currency by category versus prior year. Doll category grew by 68% driven by continued strength in Barbie, the launch of Spirit and high double-digit growth in Polly Pocket and American Girl. Doll POS was very strong, in line with shipments. The Barbie power brand delivered phenomenal growth of 86%, with POS up 66% and all product segments growing. Per NPD, Barbie strengthened its position as the #1 Global Dolls property in the first quarter. American Girl's impressive turnaround continued its momentum and was up 22%, the second consecutive quarter of positive year-over-year growth.

Vehicles category was up 15% driven by the strong performance of Hot Wheels and Matchbox. POS in the category remains strong, also growing double digits and outpacing shipments. Hot Wheels was up 16% with growth across all product segments for this power brand. Per NPD, Hot Wheels continued to be the #1 Vehicles property globally in the first quarter.

Infant, Toddler, and Preschool category was up 29% driven by Fisher-Price and Thomas & Friends power brand. Our Infant, Toddler, Preschool category performed in line with the industry. Fisher-Price Core grew by 36%, with POS up 24% driven by Infant and Newborn. Per NPD, Fisher-Price continued to be the #1 Infant, Toddler, Preschool manufacturer globally in the first quarter. Thomas & Friends was up 5% with POS up 8%, continuing to show improvement.

Action Figures, Building Sets, Games, and Other, our challenger categories, together grew 66% driven by double-digit gains across the portfolio. Games achieved its ninth consecutive quarter of year-over-year growth, up 25%, driven by UNO, which continued to perform very well as it celebrates its 50th anniversary. Per NPD, UNO is the #1 card game globally. Building Sets were up 46% driven by strong POS and expanded distribution of MEGA, along with growth in Pokémon and Halo. Action Figures increased 101% driven by Jurassic World, WWE and Masters of the Universe. Plush continued to grow driven by Mattel's products tied to Star Wars.

Our exceptional first quarter results far exceeded expectations and clearly show that we are making significant, consistent progress on our newly evolved strategic road map. In the short term, we are improving profitability by optimizing our operations and accelerating top line growth by growing our power brands and expanding our brand portfolio. In the mid-to-long term, we continue to make progress on capturing the full value of our IP through franchise management and online retail and e-commerce. The Optimizing for Growth program is on track, and we are very confident in our ability to deliver the targeted savings of $250 million by 2023. Importantly, this program is also designed to improve operations and drive greater productivity to accelerate top line growth.

We are seeing a strong start to the second quarter, including Easter week, and we are planning for another good holiday season. The Mattel playbook is working very well, and our products continue to resonate with consumers at levels we have not seen in many years. This is all fueled by design-led innovation, brand purpose, cultural relevance and executional excellence. Given the first quarter performance and the momentum of our business, we are now raising our 2021 guidance for net sales growth in constant currency to be in the range of between 6% to 8% and adjusted EBITDA to be between $800 million and $825 million despite an increase in the expected level of cost inflation. Anthony will provide more details on our updated guidance. Beyond 2021, we are confident in our ability to achieve our goals of mid-single-digit net sales growth in constant currency in 2022 and in 2023 and an adjusted operating income margin in the mid-teens by 2023.

As it relates to our mid-to-long term strategy, we continued to make progress towards capturing the full value of our IP. Earlier this week, we announced the development of our Rock 'Em Sock 'Em Robots live-action motion picture with Universal Pictures and Vin Diesel's production company, One Race Films, with Vin Diesel to star in the film. This marks our 12th film in development. We also recently announced plans to develop Barbie Fashion Battle, a reality show where designers compete for the chance to create a fashion collection for Barbie. Our latest animated Barbie television movie, Barbie & Chelsea The Lost Birthday, had a very strong debut this past weekend in the U.S. and Canada on Netflix, ranking as the #5 and #6 movie, respectively, among all movies on the platform, not just for children. We are excited to have another animated Barbie movie premiering this fall on Netflix. Our content pipeline remains robust, and we are excited about the momentum at Mattel Films and Mattel Television.

We also continue to build out our direct-to-consumer business led by strong performance in American Girl, which saw online DTC growth of 73%. Mattel Creations, our highly curated DTC platform, is also receiving very positive consumer reaction as well as our Barbie and Hot Wheels collector platforms.

Today, being Earth Day, gives us another opportunity to emphasize that sustainability is a key priority for Mattel, and creating sustainable products and packaging is an important part of our commitment to the planet. Just last week, we announced Matchbox's product road map to make its die-cast cars, play sets and packaging with 100% recycled, recyclable or bio-based plastic by 2030. This is in line with Mattel's goal to achieve 100% use of these sustainable materials across all of our products and packaging by 2030. Expect to hear more about our sustainability commitments through our upcoming Corporate Citizenship Report to be published soon.

In closing, this was another record quarter for the company in which we achieved incredibly strong results, reflecting the success of the turnaround as we continue to drive transformational improvements and acceleration in our business. Following the third consecutive quarter of growing market share, we are strengthening our position as a consistent leader in the toy industry. Even as markets gradually reopen, we remain focused on protecting the health and safety of our employees.

I am proud of the outstanding performance of the entire Mattel global team and the significant progress we are making on our strategy to transform into an IP-driven, high-performing toy company. The business is showing strong momentum, and we believe we are very well positioned to improve profitability and accelerate top line growth in 2021 and beyond. As always, we are committed to growing long-term shareholder value.

Anthony, over to you.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Thanks, Ynon. As you just heard, we had another outstanding quarter with results far exceeding expectations. Net sales were $874 million in the quarter compared to $594 million in the prior year, an increase of 47%. Adjusted gross margin increased by 350 basis points from 43.5% to 47%, reflecting the scale benefit of the exceptionally strong top line performance, which more than offset the impact of inflation in the quarter. Adjusted operating income was a positive $28 million compared to a loss of $133 million in the prior year. The $161 million year-over-year increase was primarily driven by our top line growth. Adjusted EPS was negative $0.10, an improvement of $0.46, and our adjusted EBITDA increased by $155 million to a positive $89 million. As I said, outstanding results and a strong start to the year.

During the quarter, we also successfully completed a $1.2 billion debt refinancing, which will significantly reduce interest expense going forward and contribute to free cash flow. We made good progress on our Optimizing for Growth program. We remain on track to achieve our 3-year target and have increased our expected savings in 2021.

Looking at gross billings by region. For the third consecutive quarter, we achieved growth in each of our 4 regions in constant currency despite COVID-19 disruption and local restrictions that impacted some locations. At the end of the first quarter, about 4% of all retail outlets that sell our products, representing about 6% of our revenues, were closed. In North America and Asia Pacific, nearly all retail outlets were opened at the end of the first quarter. In EMEA, about 7% of all retail outlets were closed, representing approximately 12% of our revenues. In Latin America, about 22% of all retail outlets were closed, representing approximately 18% of our revenues in the region.

Overall, for the quarter, gross billings outpaced POS growth, reflecting some inventory restocking by retailers. Despite the restocking, retail inventories finished the quarter below year ago levels. POS growth was driven by a combination of overall industry growth and market share gains for Mattel. North America was up 67% driven by double-digit growth across all categories, while POS increased by over 40%. EMEA was up 32%, with POS increasing by over 20% driven by growth in all major markets. Latin America increased 16%, in line with POS, driven by Mexico, Brazil and Chile. Asia Pacific increased 16%, also in line with POS, driven by China and Australia.

Adjusted gross margin was another area where we did very well, increasing by 350 basis points to 47%. Here is a breakdown of the key drivers. Fixed cost absorption had a favorable benefit of 290 basis points. This is a scale benefit associated with the exceptionally high growth in sales in the first quarter. This benefit will have a much smaller positive impact to gross margin percentage for the full year. Cost savings contributed 240 basis points to gross margin expansion. In the quarter, Optimizing for Growth delivered $20 million of savings within cost of goods sold. Cost inflation had a negative impact of 240 basis points driven by increases in materials and logistics. All other factors had a positive net impact of 60 basis points, bringing the first quarter adjusted gross margin to 47%.

Moving down the P&L. Advertising expenses were $74 million, down 3% or $2 million. Adjusted SG&A expenses declined by 2% or $6 million to $309 million driven primarily by the benefit of cost saving actions taken in 2020 and the Optimizing for Growth program, partly offset by higher compensation expense.

We had another quarter with significant improvement in profitability. Adjusted operating income improved by $161 million to a positive $28 million. The increase was driven by the exceptionally high growth in sales and cost savings, partly offset by cost inflation. Reflecting the significant gains in operating income, our adjusted EBITDA was $89 million compared to a loss of $65 million in the prior year, an improvement of $155 million.

We are also very pleased with cash flow performance. Cash from operations improved by $133 million to a use of just $41 million driven primarily by gains in net income. Free cash flow improved by $138 million to a seasonal use of $72 million. Given the high seasonality of our business, we assess our cash flow performance over the trailing 12 months. On that basis, cash from operations increased by $222 million to $422 million. The increase was primarily driven by higher net income, up $470 million, partially offset by higher working capital usage.

Staying on trailing 12 months, free cash flow was $305 million compared to $72 million a year ago, an improvement of $233 million. Our intention is to use excess free cash flow to continue reducing debt in the near term. On a trailing 12 months basis, we converted 35% of our adjusted EBITDA into free cash flow, up from 18% in the year ago period. While we more than doubled our adjusted EBITDA, free cash flow increased more than fourfold. We believe we are well positioned to continue to improve on these important metrics in 2021 and beyond.

The refinancing transaction, which we successfully executed during the quarter, will generate significant interest expense savings. With the benefit of multiple-notch credit rating upgrades from all 3 rating agencies, we issued $1.2 billion of new debt at attractive rates, split into 2 tranches: $600 million of 5-year bonds with a coupon rate of 3.375% and $600 million of 8-year bond with a coupon rate of 3.75%. Proceeds from the financing, together with about $100 million of available cash, were used to redeem, through a call option, $1.225 billion, principal amount of our 6.75% bonds due 2025. As a result of this transaction, we will reduce annual interest expense by approximately $40 million, with a partial year benefit of $31 million in 2021. On an annual basis, this translates to approximately $0.11 per share. Given our valuation allowance, we do not expect to incur any incremental taxes associated with these savings in the near term.

Turning to the balance sheet. We ended the first quarter with a cash balance of $615 million and essentially no short-term borrowings. This compares very favorably to a year ago when we had a cash balance of $499 million and $150 million of short-term borrowings. The significant improvement in net cash was driven by positive free cash flow generation over the trailing 12 months, partly offset by the utilization of approximately $100 million of cash in the refinancing transaction.

In line with the significant increase in first quarter sales, accounts receivable increased by $152 million to $681 million, which will benefit cash flow later this year. We continue to effectively manage accounts receivable and finished the quarter with a days sales outstanding of 70 days, 10 days below the same time a year ago. We ended the first quarter with an inventory balance of $610 million, which is $49 million above the prior year as we build inventories to support our growth, and we continue to make progress on reducing leverage. Our debt-to-adjusted EBITDA ratio improved meaningfully, declining to 3.3x as of March 31, 2021, compared to 7.5x a year ago.

The Optimizing for Growth program is off to a good start and has already realized $27 million of savings in the first quarter. As we've previously discussed, the program is designed to further improve operations and drive greater productivity to accelerate growth and, at the same time, continue to reduce our cost base. We are increasing expected 2021 savings from $75 million to a range of $80 million to $90 million and are confident we will achieve our total targeted savings of $250 million by 2023.

As Ynon mentioned, we are revising 2021 guidance, reflecting the stronger-than-anticipated first quarter performance and updated outlook for cost inflation. This is subject to COVID-19 impact, market volatility and other macroeconomic risks and uncertainties. We now forecast net sales to increase by 6% to 8% in constant currency with the expectation for continuing growth in the balance of the year and quarterly phasing that will be impacted by year-over-year comparisons. Our guidance for growth is driven by Dolls, Vehicles and Action Figures categories as well as improving performance in the Infant, Toddler, and Preschool and Building Sets categories. We also expect our power brands, Barbie and Hot Wheels, to grow.

We also forecast higher than previously anticipated inflation in cost of goods sold due to further increases in the cost of resins and ocean freight. While these 2 items together represent less than 15% of cost of goods sold, we are expecting greater than 35% inflation for both. In aggregate, cost inflation is expected to have a negative margin impact of approximately 300 basis points this year, which is being partly offset by cost savings. We, therefore, expect adjusted gross margin to decline by 100 to 150 basis points to a range of 47.6% to 48.1%.

Despite the higher cost inflation, we are increasing guidance for adjusted EBITDA by $25 million to a range of $800 million to $825 million, reflecting the expected benefit of improved net sales growth and additional Optimizing for Growth savings. Forecasted capital expenditures remain at a level between $125 million and $150 million, including investments as part of the Optimizing for Growth program.

As Ynon said, looking beyond 2021, we are confident in our ability to achieve our goals of mid-single-digit net sales growth in constant currency in 2022 and in 2023 and an adjusted operating income margin in the mid-teens by 2023.

In closing, Mattel delivered another outstanding quarter, and we are very pleased with our start to the year. Free cash flow improved significantly, along with our free cash flow conversion rate. Leverage ratio continues to come down, and the debt refinancing provides additional flexibility as we continue to make further progress towards our strategy to improve profitability and accelerate top line growth. We believe we are well positioned to maintain our momentum.

I will now hand it over to the operator for the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Arpine Kocharyan of UBS.

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

This was a very strong quarter. My question is, first, what drove that? We knew a very good demand out there. But is there something structurally happening also that drove these very strong numbers? And then your outperformance in Q1 would have implied full year going up by almost 4 percentage points, and it's going up a little bit less than that. Does that mean you're being a little bit conservative? Or does the upper end of that range reflects that upside? Or what's going on in sort of implied guidance from Q2 to Q4?

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

Thanks, Arpine. Yes, this was an exceptionally strong quarter. We believe we are in the strongest position we have been in many years. While the exceptional growth in the quarter was partially driven by favorable year-over-year COVID-related comparisons, we believe the -- we think the strength of our own performance is driven by the strength of our brands, the quality and breadth of our product, the world-class capabilities that we have in supply chain and commercial capabilities and very effective demand creation in close collaboration with our partners -- with our retail partners.

The fact that we grew share for the third consecutive quarter, this demonstrated that we're not just riding the wave but leading the industry and driving the momentum. We expect to continue to gain market share through the rest of the year. And in fact, the strength of our performance is also evident when you compare our 2021 results to 2019 before COVID, with net sales being higher by 27% as between the first quarter of '21 versus the first quarter of '19. We're seeing -- as we sit here today, we're seeing a strong start to the second quarter, including Easter week, and we are planning for another good holiday season. We believe we are very well positioned to gain momentum for the full year and are very confident about our business trajectory and the way forward.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Yes. Just to add to that, it is early in the year with the majority of our sales still left to go. As Ynon said, a strong Q1 ahead of our expectations. And as a result, we're increasing our top line guidance to that 6% to 8% range, which reflects our expectation for continued growth in top line and share for the balance of the year but with the quarterly phasing that will certainly be impacted by the year-over-year comparisons.

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

Right, right. No, that makes sense. And Ynon, you mentioned sort of strong Easter, and we are almost at the tail end of April. From what you're saying, it seems like strong POS has continued, but you are fully comping sort of COVID boosts here. Is that surprising to you, how strong the industry is despite sort of comping this enormous growth that we started seeing really at the end of March into April?

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

We're big proponents of the toy industry, as you can imagine. Industry has proven its resilience and showing very good momentum. The category showed that it's resilient in challenging economic times, and parents continue to prioritize spending discretionary income on children. So this is a good place to be. And within that, we are growing ahead of the industry for 3 quarters in a row. So as we emphasize, this is not just -- we are -- kind of we're not riding the wave, we are leading the momentum. And beyond '21, we believe -- we continue to believe in the long-term prospect of the industry given the strong fundamentals and that we are well -- very well positioned to accelerate our own growth and continue to increase market share.

And you followed our story for -- over the last few years, and you are seeing a consistent, methodical improvement in our numbers, both profitability and top line. Our playbook -- our brand playbook is working very well, and the momentum we are seeing is very broad-based. As we said in the prepared remarks, we saw double-digit growth in every region in each of the 7 categories where we operate and strong double-digit growth in our 3 power brands as well as American Girl. So it's very broad-based, comprehensive performance and gives us even more confidence about the road ahead.

Operator

Our next question comes from Tami Zakaria of JPMorgan.

Tami Zakaria - *JPMorgan Chase & Co, Research Division - Analyst*

Congrats on the excellent results. My first question is, your second quarter compares from last year are far more easier than it was in the first quarter. So how should we think about the second quarter sales growth based on the trends that you're seeing and if Amazon Prime Day shifts to June versus October last year?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Just as a reminder, we are lapping double-digit declines in the first half last year, followed by double-digit gain. So as I said, our quarterly comparisons are going to be impacted given our prior year performance. Also, our guidance of 6% to 8% growth in constant currency does imply growth for the balance of the year. We're not going to break it down by quarter. But as Ynon said, we're off to a good start in the second quarter.

Tami Zakaria - *JPMorgan Chase & Co, Research Division - Analyst*

Got it. Got it. That's super helpful. And then one quick follow-up. Can you tell us how much was the industry growth in the first quarter?

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

This is an NPD number, which we can't share with you here, but we can confirm that we did grow market share. We grew market share in each of the 4 regions. Barbie continued to grow market share, and this is just a whole story in and of itself, which I'm sure you might want to talk about later. Hot Wheels continue to be the #1 Vehicle property globally. Fisher-Price was the #1 Infant, Toddler, Preschool manufacturer globally. And even if you look at our performance by region, in the U.S., we grew 30% faster than the industry. And in EMEA, we grew almost 2x faster than the entire industry. So you're seeing market share gains across the board, both by category, by product and by region.

Operator

Our next question comes from Shawn Collins of Citigroup.

Shawn Michael Collins - *Citigroup Inc. Exchange Research - Research Analyst*

My question is on cost inflation. Anthony, you gave us some good detail on cost inflation and its impact on margins. You also laid out some good detail on the last earnings call. And you've been very clear, it's due to resin and overseas shipping costs. Can you tell us, have these pressures increased in the second quarter versus the first quarter? And also, are you seeing more pressure from the resin prices or from the shipping costs? If you could just provide a bit of color around that, that might be helpful.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Sure. The pressure is essentially equally weighted between resins and ocean freight. We're seeing cost inflation accelerate on both of those, and that's the reason we have lowered our expectations for gross margin. On the last call, we talked about a 200-basis point negative impact from cost inflation. We're raising that to 300 million in terms of the impact on gross margin, but more than half of that is going to be offset by the expected savings on our Optimizing for Growth program and other gross margin benefits like scale and mix. But again, we're left with that decline of 100 to 150 basis points. And as we said, these 2 items, although they're less than 15% of our total COGS, they're inflating by more than 35%. So a pretty significant impact on the gross margin line.

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

The 300 was, by reference, to basis points, not millions.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Yes. The year to go period, we'll see more of a negative impact than the 240 basis points in Q1.

Operator

Our next question comes from Steph Wissink of Jefferies.

Stephanie Marie Schiller Wissink - *Jefferies LLC, Research Division - Equity Analyst and MD*

I have a clarification question first on Tami's question on the guidance. I think, Anthony, your response was that you expect to grow through the remainder of the year. Are you suggesting we look at Q2, 3 and 4 together relative to Q2, 3 and 4 last year, and that will grow or that you expect to grow each quarter in the remainder of the year? That's my first question.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

9-month period, Q2, 3 plus 4 combined.

Stephanie Marie Schiller Wissink - *Jefferies LLC, Research Division - Equity Analyst and MD*

Got it. Very helpful. And then my second question is just related to stimulus. When I look at your North America numbers, they deviated a bit from the rest of the world, a substantial outperformance on a relative basis. Any thoughts around the combination of the January and March, early April stimulus on the industry and your brands specifically? Do you feel like you were a net beneficiary of incremental capital to spend? And I think, Ynon, you mentioned spending on kids being prioritized.

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

It's -- we do believe that checks had -- the stimulus checks had some positive impact on consumer spending, but it's hard to attribute an exact number on that or the proportion. In the U.S., we're now beginning to comp last year's stimulus efforts, and we'll continue to see how things evolve. But just to point you on something that you said, we actually grew relative to market more in EMEA where we grew almost double the rate faster than the industry relative to the U.S. where we grew 30% faster than the industry. But in any event, we are entering the second quarter with momentum, as we said. We are planning for another good holiday season. We expect to gain momentum over the 9-month period for -- and growth for the full year at the guidance we provided.

Operator

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

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

Steph had a good question there, and I just want to follow up on that a little bit. The first quarter is off to a quarter of tale of 2 cities. You've got the holiday and what we call grandma money at the beginning of the quarter. Then towards the end of the quarter, you have Easter. So you benefited from both this year. You had a tremendous amount of gift card redemptions, at least that's the commentary out there. I was wondering if you knew how much gift card redemptions helped you this year, how many more -- how much more of your POS was sold through gift cards. And then Easter being maybe 10 days early versus last year and about 3 weeks early versus 2019, based on history, how much an early Easter traditionally helps you out.

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

Yes. Look, we are seeing a strong start to the second quarter, including Easter, and don't believe there was a pull forward from Q2 to Q1 that was in any way material relative to our very, very strong top line results. I don't know the specific answer to the gift card question, though. But with the Easter, it is difficult to calculate exactly the impact. But again, we don't think it had a material impact.

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

Okay. Maybe I can -- if I'm getting stumped there, maybe I can ask one on Richard, please. Richard, retailers seemed very conservative in stocking Boys Action last year with the general uncertainty around theatrical events. How are they approaching that category this year?

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

Thanks, Gerrick. It's a light entertainment slate, obviously, in Q1, but we've outpaced the industry. We've been focusing on our key licenses, such as Jurassic World, of course, which has had phenomenal success with Universal. WWE has continued to gain strength, Minecraft with Microsoft. Our focus is to take both owned and licensed IP from event-driven brands and really make them truly evergreen through product innovation, cultural relevance and, as you know, focused around purposeful play.

We remain really bullish about the Action Figure category. We've embraced this challenger mentality in the category, and we've been looking to gain and have proven to gain share in the category. We're anticipating, as you know, great growth as we look at our new entry with Masters of the Universe, content coming this summer on Netflix. And our product offerings are winning really in the marketplace with consumers. So look, we're very bullish on the Action Figure category. We're making incredible progress with our brands, and we're really excited about the year ahead.

Operator

Our next question comes from Mike Ng of Goldman Sachs.

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

I just wanted to ask about the growth outside of the power brands. I was just wondering if you could elaborate a little bit more on the Action Figures strength, up 101% year-over-year. Were there any particular licenses or brands that performed well? And then just as a follow-up to some of the earlier questions about quarterly revenue phasing throughout the year. With the comp getting easier in 2Q versus 1Q, should we expect similar top line growth in 2Q as we saw in this quarter?

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

Michael, I'll take the first part of the question. As I mentioned to Gerrick, we're incredibly optimistic and bullish on the Action Figure category. The whole category, according to NPD, in the U.S. was up 43% in the first quarter. Mattel was actually up 56%. So we've outpaced the category, resulting in some market share growth, which has been fantastic. WWE, Jurassic, these were the #7 and #8 properties in the category, respectively. WWE Elite Figures were the #2 item, and we're most excited that Masters of the Universe Origins, this was the fifth item in the first quarter. So we're very excited about the progress that we're making, both on our evergreen brands and new brands to come.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Yes. Back on the quarterly phasing, again, we're comping a down first half and a double-digit second half from last year. And as we said, we're raising our guidance to the 6% to 8%, which does imply growth for the balance of the year in aggregate, we're not going to split that by the quarters. But as Ynon said, we're off to a strong start in the second quarter and expect to grow balance of the year both in dollars and in share.

Operator

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

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

Actually, I just had 2 questions. First is just on Barbie. I think you said that the Barbie -- your sales growth was quite a bit higher than POS growth. There was a bigger gap there than your other brands. So why was the gap bigger for Barbie? And should we be concerned about that? How are the retail inventories for Barbie? And then my second question has to do with -- we had a little bit of stock excitement with Funko when they talked a little bit about nonfungible tokens. And it occurred to me that you guys actually have some of your own IP that you could sort of take advantage of in that area as well. Is that something that you've been looking into as well?

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

Linda, it's Richard. I'll take the first part of the question gladly, by the way, it is true Barbie shipping did outpace in the first quarter. However, our Q1 ending retail inventory is roughly flat year-over-year, indicating that we're incredibly well positioned to continue the momentum into Q2 and to the back half. The truth is our Doll category overall had a fantastic quarter. Gross billings up, 68%; POS growing 59%. The category, of course, was driven by Barbie's phenomenal performance. We'd love to repeat that gross billings were up 86%. As you indicate, POS up 66%. And this is healthy growth across all of our product segments. We've strengthened our position as the #1 Global Doll property. We continue to gain market share in all 4 regions in the first quarter, quoting NPD.

And ultimately, our playbook is working. Barbie's cultural relevance truly has never been stronger. We've been leaning into diversity, inclusivity and social impact, and we've seen this reflected in the success of Fashionistas, which also had double-digit increases. Design-led momentum as part of the playbook with innovative product like Color Reveal, Barbie Extra also drove incremental growth in the first quarter. So all in all, we are incredibly confident in the brand's continued momentum for 2021. We've got some incredible activations planned throughout the year. All-new animated movie launches on Netflix. We also have a new Dreamhouse, which has been a blockbuster success for us, and we're extending characters like Chelsea, Ken's 60th anniversary and, of course, as always, continued surprise pop culture milestone moments. All in all, we're very excited about 2021 and the future prospects for the brand.

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

Thank you for the question. As the owner of one of the strongest catalogs of children and family entertainment franchises, and the emphasis is on the ownership, we do have opportunities to commercialize our brands in new and exciting ways. We don't need to license the rights. We own the rights. And we are looking at all types of opportunities, including NFTs. This is definitely an area where we see opportunity, especially when you think about the built-in fan base, the collector segment for classic evergreen brands that we own, and we expect to see opportunities there.

Operator

Our next question comes from Greg Badishkanian of Wolfe Research.

Frederick Charles Wightman - *Wolfe Research, LLC - Research Analyst*

It's actually Fred Wightman on for Greg. I totally get the points on the cost headwinds from resins and transportation, but can you talk about how you're thinking about pricing power to potentially offset that as we move through the year?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Sure. I can address that. Let me make a couple of comments. First, I'd say it is our expectation that the combination of pricing and Optimizing for Growth savings will more than exceed the impact of cost inflation over time, expanding our gross margin and contributing to our mid-teens adjusted operating income margin goal. We're not going to talk about specific pricing actions or timing, but we are evaluating price adjustments for the recent increases in input costs. And I would also want to point out that despite the cost inflation we're seeing, and the impact it's having on gross margin, we're continuing to improve profitability and margin. Our adjusted EBITDA guidance of $800 million to $825 million represents growth of 11% to 15%, and that's almost double our net sales guidance of 6% to 8% in constant currency, so continuing to make progress on profitability despite the inflation challenges.

Frederick Charles Wightman - *Wolfe Research, LLC - Research Analyst*

Makes sense. And then if we look at Hot Wheels, we didn't see quite the same sequential acceleration that we saw in the other power brands. It was still up double digits but not quite as strong as the others. Is that just a matter of having slightly tougher compares in the prior year period? Or is there something else to highlight there?

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

Well -- it's Richard. No, nothing to highlight, except our excitement around the performance of Hot Wheels. I mean, certainly, delivering double-digit growth on a brand with such maturity, continues to make us very proud. Clearly, the leader brand in the Vehicle category, I mean we were up 15% in the first quarter, and POS was actually up 29%. We've seen broad-based growth across all product segments on Hot Wheels. Our Hot Wheel track and play sets doing extraordinarily well. Hot Wheels Mario Kart, also POS, triple digits on that item. And Hot Wheels Monster Trucks continues to also perform exceptionally well with POS up 36%. We've got some great traction as well in the collector community. Recently, we just, for the first time ever, increased our membership on the Red Line Club, which is a DTC model. We've had incredible response, and we continue to be bullish on the year left for 2021 with Hot Wheels and beyond.

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

I just want to clarify something I said earlier. We were discussing the Q1 and Q2 comps of last year. And I just want to clarify that the comp in Q2 is similar to the comp in Q1 relative to the prior year.

Operator

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

Unidentified Analyst

This is [Mary] on for Bill. So given that most of your product comes from Asia, are you changing the timing of receipt of fall product to avoid any potential disruption from the ocean freight shortages?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Not -- specifically, our manufacturing and distribution network has been fully operational during the first quarter. And situations, certainly like the Suez Canal, has had a minor temporary impact as well as the challenges related to the L.A. port congestion, which we've been dealing with those since the fourth quarter of last year. I'd say our supply chain continues to effectively manage through these disruptions, and there has been no material impact to our business in terms of getting products where we need it to be.

Unidentified Analyst

Got it. That's very helpful. And then you've previously noted that you may be able to achieve investment-grade ratings, and leverage is in the range of 2 to 2.5x. Do you have a better sense of when you're able to get to this range? And would you consider any shareholder-friendly activities before you get there?

Anthony P. DiSilvestro - *Mattel, Inc. - CFO*

Look, I'd say we're making tremendous progress. Ahead of our refinancing transaction, all 3 rating agencies made multiple-notch upgrades. We're solidly in the BB category right now. So again, significant progress there. If you look at our cash flow performance, trailing 12 months, $305 million of positive free cash flow, 4x the prior year. We ended the quarter with debt-to-adjusted EBITDA on a trailing 12 months at 3.3x, down from 7.5x a year ago. So tremendous progress. Our intention remains to use excess free cash flow to reduce debt in the near term and work our way back towards investment-grade ratings. Can't say exactly when we'll get there, but we're continuing to make progress. And our expectation is that with continued growth in adjusted EBITDA and the utilization of free cash flow to reduce debt, we will continue to make progress going forward.

Operator

Our next question comes from Jaime Katz of Morningstar.

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

I'll be quick since we're coming up on the hour. I'm curious what you guys have embedded as your industry outlook for the year. And alternatively, I guess, if you don't want to answer that particular question, do you expect to continue to gain market share over the remainder of the year?

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

Jaime, so the industry is off to a strong start and, again, demonstrates its resilience, and we believe will continue to be a strategic category for retailers. As we've said before, we expect that the surge categories that benefited most from the early days of the pandemic will be more challenged. These are Outdoors, Games and Building Sets. We believe the categories where we are a global leader, Dolls, Vehicles and Infant, Toddler, and Preschool, will continue to perform well. It's hard to predict how the industry as a whole will perform for the full year, but we expect net sales for Mattel, as you know, to grow at 6% to 8% in constant currency and that we will increase our overall market share. Beyond '21, we believe in the long-term growth prospect of the industry and that we will continue to increase our own market share. So lots of opportunities ahead for Mattel.

Operator

At this time, I'd like to turn the call back over to Ynon Kreiz for closing remarks. Sir?

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

Thank you, operator. We have discussed today a record first quarter that kicked off an exceptional start for the year driven by very strong consumer demand. We are in the strongest position now than we have been in many years. When navigating the uncharted territory of a global pandemic, the entire Mattel team is staying focused on the consistent execution of our transformation strategy. Following a third straight quarter of double-digit growth and increased market share, our results demonstrate the success of the turnaround and the significant progress we are making on our transformation to become an IP-driven, high-performing toy company.

We thank you for your time and interest in Mattel. I will now turn the call back to Dave to provide the replay details. Thank you.

David Zbojniewicz - *Mattel, Inc. - Vice-President 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 1 (404) 537-3406. The passcode is 8585728. Thank you for participating in today's call.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
