

# Mattel, Inc.

## Earnings Conference Call

### First Quarter 2014

(Unaudited Results)



APRIL 17, 2014  
BRYAN STOCKTON – CHAIRMAN AND CEO  
KEVIN FARR – CFO





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

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

# Q1 2014 Key Takeaways



## ✓ Results reflect progress on planned actions to deliver another solid year for shareholders

- Gross sales of \$1.0 billion, down (-4%), including a 1 ppt unfavorable impact from currency
  - North American Region\* gross sales down (-2%), including 1 ppt unfavorable impact from currency
  - International Region\*\* gross sales down (-7%), including 1 ppt unfavorable impact from currency
- Gross sales impacted by pockets of higher retail inventory, a shift in advertising and the timing of the Easter holiday
- Gross margin of 50.9%, down from prior year's record high, reflects progress on planned efforts to reduce inventory
  - Half of the decline attributed to inventory clean-up efforts
- Reduced and optimized advertising as Company continues to align spending to historical averages
- SG&A expenses up slightly (+4%) as expected, including incremental severance expenses of \$16 million related to ongoing OE 3.0 initiatives and streamlining of workforce to drive efficiencies throughout the organization
  - Excluding severance expenses, SG&A spending was flat for the quarter
- Operating income of \$6.2 million and net loss per share of \$0.03

## ✓ Made progress on inventory

- Mattel-owned year-over-year inventory growth improved by \$53 million from year-end
- Overall U.S. retail inventory higher, partially due to timing of Easter; global pockets of inventory remaining (varies by brand, retailer and country)

## ✓ Early reads show toy industry remains steady, consistent with previous years

- U.S. toy market flat and Euro 5 up (+5%) per NPD Group thru February
- Continued shift to e-commerce from brick and mortar

## ✓ Continued to deploy capital effectively and maintain a strong balance sheet

- Paid Q1 dividend of \$0.38/share on March 7, 2014, up 6% vs. prior year
- Repurchased 736,000 shares for \$28 million in Q1
- Declared Q2 2014 dividend of \$0.38/share
- Announced the acquisition of MEGA Brands, which is planned to close in Q2

\* Includes North America Division and American Girl (AG) (see Appendix)

\*\* Includes International Division (see Appendix)



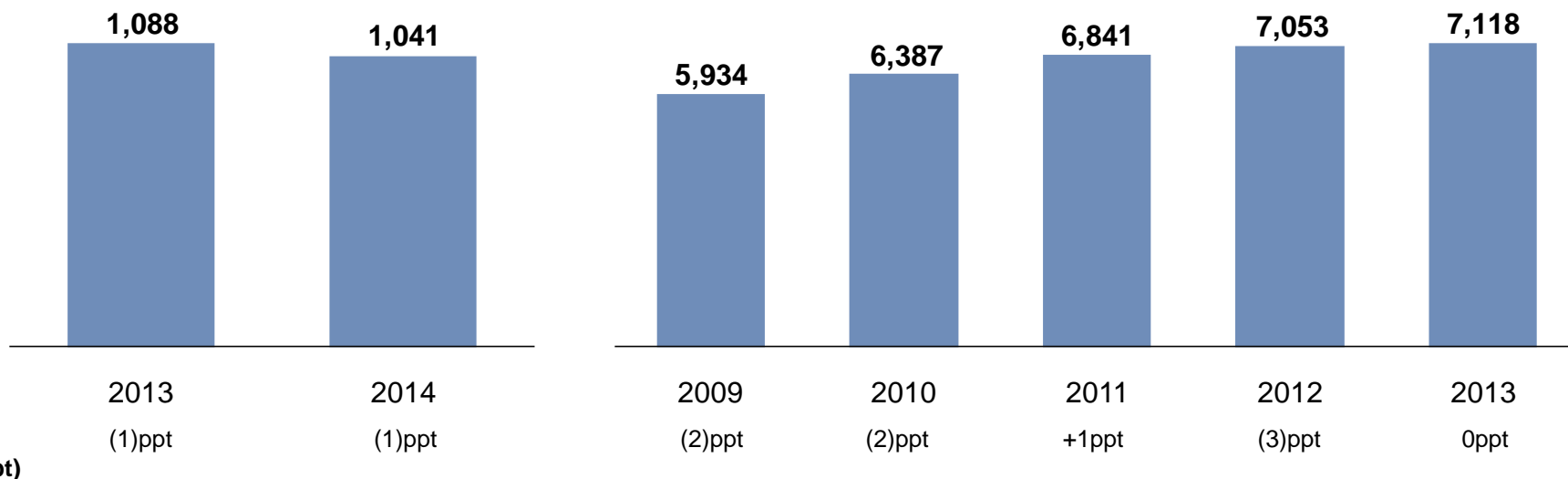
# Worldwide Gross Sales



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

Quarter  
-4%

Historical Trend Full Year



- WW gross sales down (-4%) in the quarter, including a 1 ppt unfavorable impact from currency
- Decline in North American Region\* in the quarter (-2%), including a 1 ppt unfavorable impact from currency; declines in Barbie, Fisher-Price and Entertainment, partially offset by growth in American Girl, Other Girls and Hot Wheels
- Decline in International Region\*\* in the quarter (-7%), including a 1 ppt unfavorable impact from currency; declines in Barbie, Fisher-Price and Entertainment, partially offset by growth in Other Girls and Hot Wheels
- Made progress on inventory in the quarter
  - Mattel-owned year-over-year inventory growth improved by \$53 million from year-end
  - Overall U.S. retail inventory higher, partially due to timing of Easter; global pockets of inventory remaining (varies by brand, retailer and country)

\* Includes North America Division and American Girl (see Appendix)

\*\* Includes International Division (see Appendix)



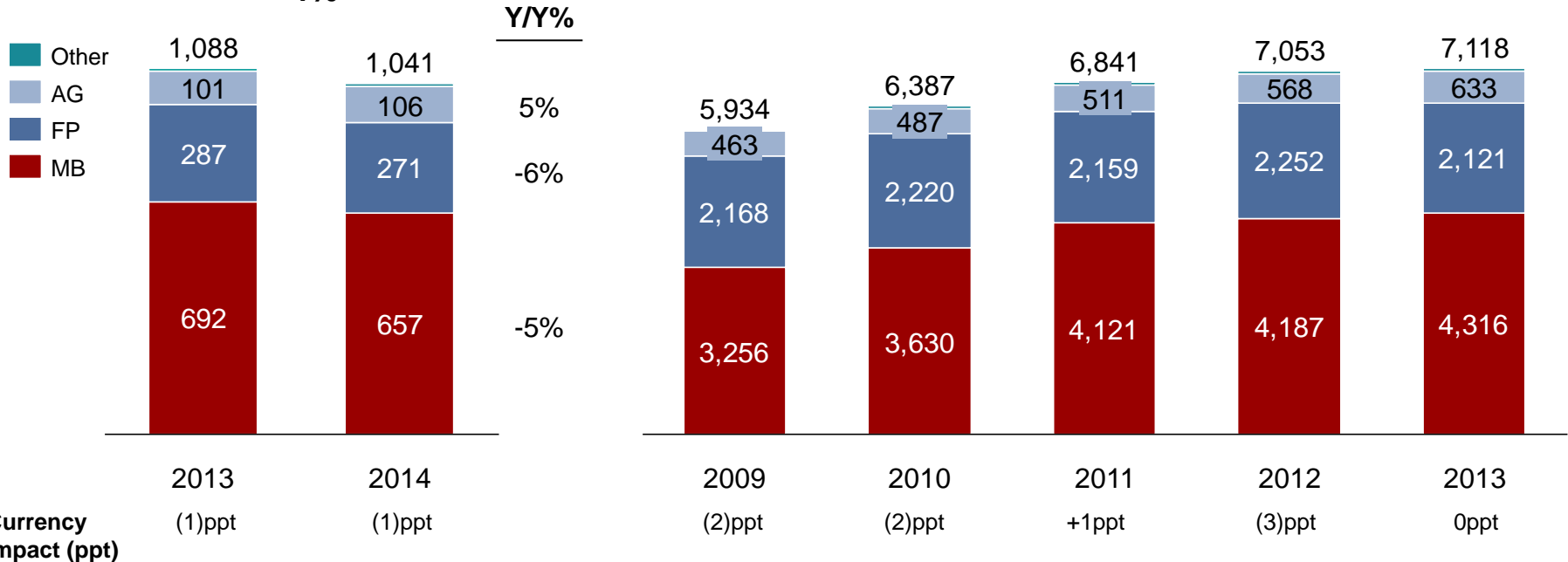
# Worldwide Gross Sales by Brand



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

**Quarter**  
-4%

**Historical Trend Full Year**



## Mattel Brands

Declines in Monster High, Barbie and Entertainment, partially offset by growth in Disney Princess and Hot Wheels and the launch of Ever After High

## Fisher-Price

Declines in some Fisher-Price Core brands and entertainment properties, partially offset by growth in Laugh and Learn and Power Wheels

## American Girl

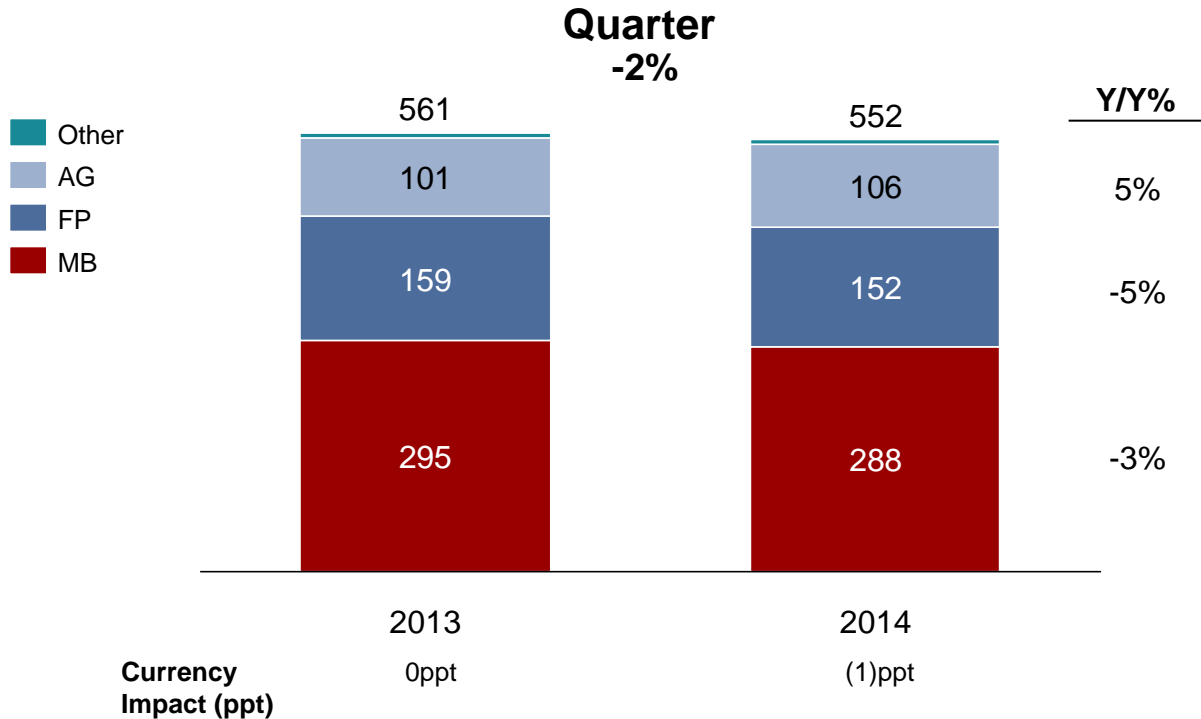
Strong sales in the new Girl of the Year, "Isabelle," solid direct and retail performance, partially offset by challenging comp with Historical Dolls



# North American Region Gross Sales by Brand



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



## Mattel Brands

Declines in Monster High, Barbie and Entertainment, partially offset by growth in Disney Princess and Hot Wheels and the launch of Ever After High

## Fisher-Price

Declines in some Fisher-Price Core brands and entertainment related properties, partially offset by growth in Power Wheel, Laugh and Learn and Baby Gear

## American Girl

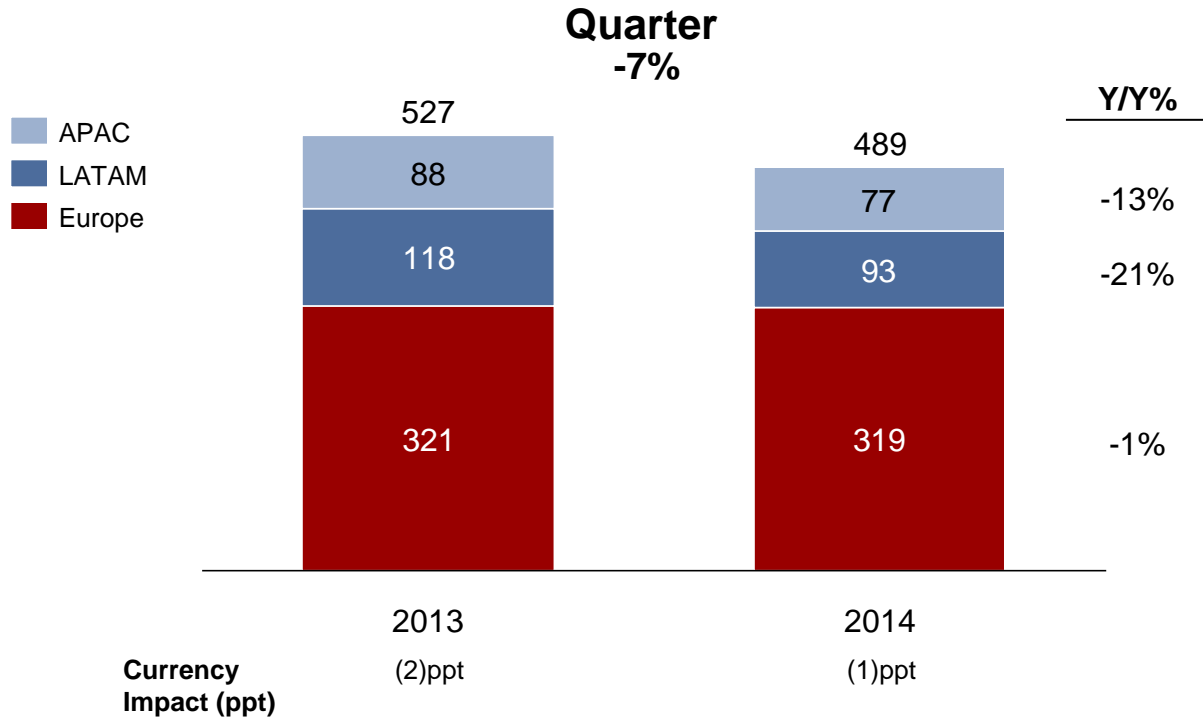
Strong sales in the new Girl of the Year, "Isabelle," solid direct and retail performance, partially offset by challenging comp with Historical Dolls

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

# International Gross Sales by Region



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



Revenues down slightly (-1%), with no impact from currency; POS softness in some core markets and retail inventory headwinds offsetting strength in Russia subsidiary



Revenues down (-21%), with 7 ppt unfavorable impact from currency; retail inventory headwinds driving decline



Revenues down (-13%), with 3 ppt unfavorable impact from currency; softness in Australia market offsetting continued strength in China









Note: International Region includes International Division (see Appendix)

# Gross Margin



## First Quarter 2014

(As a Percentage of Net Sales – Unaudited)

	<u>Quarter</u>
<b>Prior Year:</b>	<b>54.2%</b>
Change Primarily Driven By:	
Input Costs	
Currency	
Royalties	
O.E. 3.0	
Pricing	
Other Product-Related	
<b>Current Year:</b>	<b>50.9%</b>
<b>Change:</b>	<b>-330bps</b>

 Improvement in GM

 Detriment to GM

 Neutral to GM

### Q1 2014 Drivers

- Half of the variance due to initiatives to reduce Mattel owned inventory
- Higher royalty mix
- Challenging comparison to prior year's record Q1 margin
- Cost inflation consistent with expectations and offset by pricing actions and savings from OE 3.0 programs

### 2014 Outlook

- Made progress on inventory clean-up, but efforts will continue in short-term
- Royalty mix impact should lessen
- Commitment to near-term objective remains – maintain margins within the low-to-mid 50% range







## First Quarter 2014

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

	Quarter	
	In Millions	% of Sales
<b>Prior Year:</b>	<b>\$369.7</b>	<b>37.1%</b>
Change Primarily Driven By:		
Severance		
Employee-Related Costs		
Strategic Investments		
Incentive & Equity Comp		
O.E. 3.0 (excluding Severance)		
Currency		
Other		
<b>Current Year:</b>	<b>\$384.5</b>	<b>40.6%</b>
<b>Change:</b>	<b>+\$14.8</b>	<b>+350bps</b>

### Key Drivers

- Includes incremental severance expenses of \$16 million related to ongoing OE 3.0 initiatives
- Excluding severance, SG&A flat to prior year
- Reduced incentive and equity compensation
- Slight increase in spending on strategic growth investments

### 2014 Outlook

- 2014 Goal remains – modest increase in SG&A including severance and ongoing growth investments
- Excludes impact of pending MEGA Brands acquisition

Improvement in SG&A  
 Detriment to SG&A  
 Neutral to SG&A



# Operational Excellence 3.0



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

	Global Cost Leadership		Operational Excellence 2.0		Operational Excellence 3.0		
	2009-2010 Total	% of Gross	2011-2012 Total	% of Gross	2013 Actual	Q1 2014 Actual	Total Target
<b>Savings</b>							
• Gross Margin	\$89	40%	\$42	23%	\$51	\$12	
• SG&A*	\$108	48%	\$122	65%	\$8	\$3	
• Advertising	\$28	12%	\$23	12%	\$1	\$1	
<b>Gross Savings</b>	<b>\$225</b>	<b>100%</b>	<b>\$187</b>	<b>100%</b>	<b>\$60</b>	<b>\$16</b>	<b>\$175</b>
• Investments/ Severance	(\$13)		(\$39)		(\$21)	(\$24)	<i>Run rate</i>
<b>Net Savings</b>	<b>\$212</b>		<b>\$148</b>		<b>\$39</b>	<b>(\$8)</b>	

- Global Cost Leadership, OE 2.0 and year 1 of OE 3.0 programs exceeded expectations and delivered over \$450 million in gross savings
- Strong progress in the 1<sup>st</sup> Quarter with \$16 million of Gross Savings
- OE 3.0 initiatives to focus on:
  - Packaging Optimization
  - Manufacturing Efficiencies: Automation and LEAN
  - Enterprise Quality: Design for Manufacturing
  - Operational Efficiencies: NAD Initiative and Enhanced International Clustering
  - Indirect Procurement





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

# Operating Income






## First Quarter 2014

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

	Quarter	
	In Millions	% of Sales
<b>Prior Year:</b>	\$65.8	6.6%
<b>Change Primarily Driven By:</b>		
Sales Volume		
Gross Margin		
Advertising & Promotion		
SG&A		
<b>Current Year:</b>	\$6.2	0.7%
<b>Change:</b>	(\$59.6)	(590bps)

**Q1 Operating  
Income  
\$6.2 million**

- Decrease driven by lower sales and gross margins
- Advertising lower as company focuses on improving effectiveness and aligns spending to historical averages
- Severance costs are up with remaining SG&A flat to prior year

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





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

**Prior Year:**

**Quarter**

**\$0.11**

**Q1 EPS  
down \$0.14**

Change Primarily Driven By:

Operating Income



Non-Operating Income / Expense



Taxes



Share Count



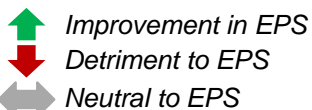
Decrease driven by lower operating income, partially offset by lower non-operating expenses, lower tax expense and share count

**Current Year:**

**(\$0.03)**

**Change:**

**(\$0.14)**



# Cash Flow\*



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

	2013	2014
Net Income / (Loss)	\$39	(\$11)
Depreciation	\$42	\$48
Amortization	\$4	\$4
Change in Working Capital & Other	(\$147)	\$20
<b>Net Cash (Used for) / From Operations</b>	<b>(\$62)</b>	<b>\$61</b>
Capital Spending	(\$53)	(\$44)
Acquisitions	-	-
Other Investing	(\$13)	\$14
<b>Net Cash (Used for) Investing</b>	<b>(\$66)</b>	<b>(\$30)</b>
Payments of Long-Term Borrowing	(\$350)	-
Net Proceeds from Long-Term Borrowing	\$495	-
Share Repurchases*	(\$32)	(\$28)
Dividends	(\$124)	(\$129)
Financing Activities and Other	\$63	(\$16)
<b>Net Cash From / (Used for) Financing Activities &amp; Other</b>	<b>\$52</b>	<b>(\$173)</b>
<b>Change in Cash</b>	<b>(\$76)</b>	<b>(\$142)</b>
<b>Cash at Beginning of Period</b>	<b>\$1,336</b>	<b>\$1,039</b>
<b>Cash at End of Period</b>	<b>\$1,260</b>	<b>\$897</b>

### Cash Flow from Ops

Increase primarily driven by lower working capital usage, partially offset by lower net income

No long-term debt activity in Q1 2014

### Financing Activities

### Dividend/ Share Repurchase

- Quarterly dividend of \$0.38 (+6%)
- Share repurchases increased\*

Note: Amounts shown are preliminary estimates. Actual amounts will be reported in Mattel's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

\* Cash paid for share repurchases in Q1 2013 included \$24 million related to shares acquired in 2012





## Where We'll Grow

- Core Brands
- Entertainment Properties
- New Franchises
- International

## How We'll Grow

- Align behind Strategic Growth Plan
- Structure for growth
- Nurture talent
- Accelerate an already innovative culture

## Strategic Priorities

- Deliver consistent growth
- Build on operating margins
- Generate and deploy cash



# APPENDIX



## Name

## Description

North American Region

Includes North America Division and American Girl

International Region

Includes International Division

North America Division

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

International Division

Excludes U.S. and Canada

American Girl Brands

Includes American Girl, excludes Corolle

Core Europe

Includes France, Belgium, Netherlands, Spain, Portugal, Italy, Germany, Austria, Switzerland, Nordics/Scandinavia, UK





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