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MAT.OQ - Q2 2022 Mattel Inc Earnings Call

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OVERVIEW:

MAT reported 2Q22 net sales of $1,236m, adjusted operating income of $121m and adjusted EPS of $0.18. Expects 2022 net sales growth in constant currency to be 8-10% and adjusted EPS to be $1.42-1.48.

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PRESENTATION

Operator

Thank you for standing by, and welcome to Mattel's Second Quarter Fiscal Year 2022 Conference Call. (Operator Instructions)

I would now like to hand the call over to David Zbojniewicz, Vice President, Investor Relations. 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 2022 second 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 questions.

To help supplement our discussion today, we have provided you with a slide presentation. Our discussion, slide presentation and earnings release may reference non-GAAP financial measures, including adjusted gross profit and adjusted gross margin; adjusted other selling and administrative expenses; adjusted operating income or loss and adjusted operating income or loss margin; adjusted earnings per share; adjusted tax rate; 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 our 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.

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. The preliminary financial results included in the press release and slide presentation represent the most current information available to management. The company's actual results when disclosed in its Form 10-Q may differ from these preliminary results as a result of the completion of the company's financial closing procedures, final adjustments, completion of the review by the company's independent registered public accounting firm and other developments that may arise between now and the disclosure of the final results.

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 and the Russia-Ukraine war. We described some of these uncertainties in the Risk Factors section of our 2021 Annual Report on Form 10-K and on our Q1 2022 Quarterly Report on Form 10-Q, our earnings release and the presentation accompanying this call, 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, 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 our second quarter 2022 earnings call. Mattel achieved another quarter of exceptional results, with double-digit growth in revenue and adjusted EBITDA despite significant inflation. This was the eighth consecutive quarter of increased top line performance, reflecting the strength and breadth of our portfolio and the success in executing our strategy.

Looking at the second quarter's financial highlights versus the same period in the prior year. Net sales were up 20%, Adjusted operating income was up 82%, adjusted earnings per share improved from $0.03 to $0.18, and adjusted EBITDA increased by 42%.

Per The NPD Group, Mattel was the #1 toy company in the U.S. and #1 globally in our leader categories Dolls, Vehicles and Infant, Toddler and Preschool. Our power brands Barbie, Hot Wheels and Fisher-Price were each the #1 property in their respective categories.

We achieved growth in all reported categories, with extraordinary performance in Action Figures and double-digit gains in North America, EMEA and Latin America.

Total company POS was up low double digits, benefiting from the Easter shift to the second quarter as well as theatrical movie tie-ins. POS was up low single digits in the first half of the year, with an improving trend post Easter.

Adjusted EBITDA increased substantially through a combination of sales growth, pricing actions and cost savings in spite of significant cost inflation. Our supply chain is playing a key role in our success, with all owned and operated factories fully operational.

Overall, the first half of the year was an outstanding period of growth for the company, with gross billings up 23% to over $2.5 billion, a new record level for Mattel, and adjusted operating income more than doubling to $212 million.

While first half sales benefited from increased retail inventories, we believe owned and retail inventories are appropriate to meet the projected increase in consumer demand for our products.

As we enter the second half, we are reiterating our 2022 guidance for net sales growth in constant currency, adjusted EPS and adjusted EBITDA.

Topline performance will be driven by the power of our brand portfolio, the relaunch of Monster High and multi-category partnerships with Universal's Jurassic World and Minions, and Disney and Pixar's Lightyear, among others.

We are also reiterating our 2023 goals. Next year is shaping up very well, with strong innovation pipeline and the broadening of our portfolio, including the global rollout of Monster High, the return of Disney Princess and Frozen franchises and the addition of Universal's Trolls.

We also announced a multiyear global licensing partnership with SpaceX for toys and collectibles starting in 2023. This marks SpaceX's first ever collaboration with a global toy company.

We are mindful of the concerns related to global supply chain and macroeconomic outlook, including inflation that may impact consumer spending. Like all companies, we are not insulated from market volatility and negative conditions. That said, the toy industry has historically demonstrated its resilience during challenging economic times, and we believe Mattel is well-positioned to outperform the industry.

Looking at gross billings in the second quarter in constant currency versus the prior year, the company achieved strong growth of 24%, with increases in each of our leader categories: Dolls, Vehicles and Infant, Toddler and Preschool, as well as in our Challenger categories overall, driven by Action Figures.

Dolls grew 5%, led by Barbie and Polly Pocket. Barbie increased 7%, on top of a significant double-digit gain in the same quarter last year. Barbie grew in most segments, partially offset by a decline in higher price point items.

American Girl declined by $8 million compared to last year's very strong second quarter.

Vehicles increased 28%, driven by Hot Wheels. Hot Wheels grew 31%, on top of a strong double-digit increase in the same quarter last year.

Infant, Toddler, and Preschool also had a strong quarter, increasing 23%, driven primarily by Fisher-Price Core as well as Thomas & Friends.

Challenger categories, in aggregate, increased 48%, driven by Action Figures, led by Jurassic World and Lightyear and by strong double-digit growth in Building Sets.

The second quarter results are in line with our strategy to grow Mattel's IP-driven toy business and expand our entertainment offering.

The toy industry overall has been performing well year-to-date, and we believe it will grow for the full year and continue to grow going forward.

We outperformed the industry for two years in a row and see significant opportunities ahead to gain additional share.

We are making progress on capturing the full value of our IP in highly accretive business verticals, including content, consumer products and digital experiences.

The most notable example is the Barbie movie, which has just completed principal photography and is already generating incredible excitement and social media interest. Today, we're exactly one year away from its planned worldwide theatrical release by Warner Bros.

Mattel Films is expanding its slate, and we just announced that Matchbox will be developed into a motion picture with Skydance Media.

On the television side, the Monster High live-action television movie musical will launch on October 6 on Nickelodeon and Paramount+, followed by a 26-episode animated series this fall.

Season 3 of He-Man and the Masters of the Universe animated series will premiere on Netflix on August 18, timed for He-Man's 40th anniversary.

Netflix will also debut the animated series Deepa & Anoop in the same week, our first television project based on original IP.

Consumer Products and Digital Experiences also present a significant opportunity for Mattel. We have announced the hiring of two senior executives from The Walt Disney Company and Scopely to lead our next chapter of growth in these important areas.

Following eight consecutive quarters of growth for Mattel, we believe we are well-positioned to continue growing our IP-driven toy business and expand our entertainment offering.

We are benefiting from strong retail partnerships and look forward to meeting the projected increase in consumer demand for our product, as we enter the second half of the year and the all-important holiday season.

We expect to achieve our full year 2022 guidance and 2023 goals and gain market share going forward.

As the owner of one of the strongest portfolios of children's and family entertainment franchises in the world, we are excited by the opportunities to capture the full value of our IP.

And now, Anthony will cover the financial performance in more detail.

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

Thanks, Ynon.

We achieved another quarter of strong results. Here are some of the highlights for the second quarter.

Net sales were $1.236 billion, an increase of 20%. Excluding the negative impact of currency translation, net sales grew 24%.

Adjusted gross margin declined by 260 basis points due primarily to cost inflation.

Adjusted operating income was $121 million, up 82%, with the benefit of top line growth partly offset by the gross margin decline.

Adjusted EPS was $0.18 compared to $0.03, an increase of $0.15, driven by growth in adjusted operating income, lower interest expense and a lower adjusted tax rate.

The adjusted tax rate in the quarter was 31% compared to 76% a year ago.

Adjusted EBITDA increased by $55 million or 42%, benefiting from top line growth.

Overall, we are very pleased with our second quarter and first half results having achieved strong growth in revenues and profitability.

We recognize that we are operating in a very volatile environment with significant increases in input costs, supply chain disruption, and consumers experiencing the highest level of inflation in over 40 years.

We believe we are well positioned to manage through these challenges, as we have done so for the last two years by leveraging our assets, capabilities and flexible operating model.

We are reiterating our 2022 guidance for net sales growth, adjusted EPS and adjusted EBITDA, while adding the expected impact of currency translation on net sales, and updating for a slight improvement in projected adjusted gross margin.

Turning to gross billings in constant currency. Total company increased 24%, with double-digit growth in three of four regions and gains in all reported categories.

Quarter-end retail inventory was up in both dollars and weeks of supply as retailers ordered products to meet the projected increase in consumer demand, including for products tied to major theatrical summer releases, and to increase inventory levels in advance of the holiday season to reduce supply chain risk.

Looking at gross billings in constant currency by region.

North America was up 30%, with growth across all power brands and key categories, led by Action Figures. POS increased high single digits.

EMEA grew 21%. Growth was comprehensive with gains in all key markets, all reported categories and all power brands. POS increased low double digits.

Latin America had an exceptionally strong quarter, increasing 34%, with growth in all markets and power brands. POS increased low double digits.

Asia Pacific was flat as strong growth in Australia and Japan was offset by a decline in China, which was impacted by COVID-related retail closures. POS increased mid-single digits.

Adjusted gross margin declined 260 basis points to 44.9%. Gross margin was negatively impacted by cost inflation, principally materials and ocean freight and other supply chain costs, which had a negative impact of 570 basis points, and increased royalties, which had an impact of 110 basis points, reflecting the growth of licensed properties. These negative factors were partly offset by pricing, which contributed 160 basis points, strong top line growth, which generated a fixed cost absorption benefit of 130 basis points, and savings from optimizing for growth, adding 110 basis points.

As previously discussed, we have implemented additional pricing actions that will take effect in the second half of 2022. These have been factored into the full year guidance.

Moving down the P&L.

Advertising expenses increased 2% to $90 million.

Adjusted SG&A expenses were $343 million, an increase of 3% due to capability-building investments and market-related pay increases, partly offset by lower incentive compensation and optimizing for growth savings. As a percent of net sales, adjusted SG&A expenses declined by 460 basis points to 27.8%.

We generated strong double-digit growth in adjusted EBITDA in spite of the inflation-driven gross margin decline.

Adjusted operating income increased by 82% or $55 million to $121 million, benefiting from the flow-through of top line growth, partly offset by the decline in gross margin.

Adjusted operating income as a percent of net sales increased by 330 basis points to 9.8%.

Adjusted EBITDA increased by $55 million or 42% to $185 million.

Cash from operations was a use of $425 million, reflecting the seasonality of the business compared to a use of $241 million in the prior year. The increased use of cash was due to higher working capital requirements, partly offset by higher net income.

Capital expenditures were $79 million compared to $75 million in the prior year.

Free cash flow was a seasonal use of $503 million compared to $316 million in the prior year.

Free cash flow on a trailing 12-month basis was $147 million compared to $374 million in the prior year. Free cash flow was impacted by an increase in working capital, partly offset by higher earnings.

The increase in working capital is due to higher inventories as we are manufacturing earlier in the season and higher accounts receivable associated with our strong topline growth.

Free cash flow conversion for the trailing 12-month period was 13% compared to 39% in the prior year period. Looking ahead to the full year, we expect to improve free cash flow and conversion rate compared to 2021.

Taking a look at the balance sheet.

Cash balance was $275 million compared to $385 million in the prior year.

Total debt was $2.576 billion, down from $2.839 billion as free cash flow was used to repay debt.

Accounts receivable increased by $205 million to $989 million, in line with sales growth. Inventory was $1.178 billion compared to $818 million last year. The increase is due to an earlier seasonal inventory build and the impact of cost inflation.

Leverage ratio continued to improve. We finished the second quarter with a debt to adjusted EBITDA ratio of 2.3x compared to 3x in the prior year and 2.4x at the end of the first quarter. We continue to benefit from a combination of growth in adjusted EBITDA and debt reduction.

Savings from the Optimizing for Growth program were $22 million in the quarter, $13 million of which benefited cost of goods sold. Looking ahead, we continue to expect the program to achieve incremental savings of $80 million to $90 million in 2022 and total savings of $250 million by 2023.

I will now cover our 2022 guidance.

Net sales are expected to grow by 8% to 10% in constant currency. This will be driven by growth in each of our leader categories, as well as our challenger categories combined.

Doll's gross billings are expected to grow, driven by the relaunch of Monster High and continued success of Polly Pocket.

Barbie is expected to be comparable to 2021, the highest year on record and following 2 years of strong double-digit growth. While fashion dolls continue to perform well, we are seeing some softness in higher priced items such as the Barbie Dreamhouse. We are very confident in Barbie's multiyear growth trajectory, amplified by the Barbie theatrical movie release next summer.

American Girl is now expected to modestly decline for the year.

Vehicles is expected to grow, led by Hot Wheels.

Infant, Toddler, and Preschool is expected to grow, led by Fisher-Price and Thomas & Friends.

Gross billings for challenger categories together are expected to grow, driven primarily by strong performance in Action Figures.

Net sales guidance in constant currency reflects our expectation for continued growth in the second half.

Currency translation for the full year is forecast to have a negative impact on as-reported net sales of approximately 2 to 3 percentage points.

Adjusted gross margin for the full year is now expected in the range of 47% to 48%, a slight improvement compared to our previous guidance of approximately 47% and compared to 48.2% in 2021.

Adjusted EBITDA guidance remains unchanged. We continue to expect adjusted EBITDA to be in the range of $1.1 billion to $1.125 billion.

Relative to our prior guidance, the negative impact of currency translation is offset by the improved gross margin.

SG&A is expected to decline as a percent of net sales, while advertising remains relatively flat as a percent of net sales.

Adjusted EPS is expected to be in the range of $1.42 to $1.48 per share compared to the 2021 base of $1.30.

Adjusted tax rate is forecast to be 26% to 28% compared to 25% in 2021. EPS in the second half will be negatively impacted by a higher adjusted tax rate compared to the prior year period.

Capital expenditures are expected to be in the range of $175 million to $200 million, reflecting the previously mentioned strategic investments to increase manufacturing capacity in our own Dolls and Vehicles facilities in which we have a significant competitive cost advantage.

Mattel's guidance and goals take into account anticipated supply chain disruption that the company is aware of today, but remains subject to any unexpected supply chain disruptions, fluctuations in foreign exchange rates, inflation, changes in global economic conditions and consumer spending, labor market fluctuations and other macroeconomic risks and uncertainties.

Looking ahead, we are also reiterating our 2023 goals to achieve high single-digit net sales growth in constant currency and an adjusted operating income margin of approximately 16% to 17% of net sales. The adjusted operating margin goal reflects our expectation that over time, the combination of pricing and cost savings will exceed cost inflation, which we expect to moderate in 2023.

Our 2023 EPS goal is to exceed adjusted EPS of $1.90, with the expected benefit from top line growth, margin expansion and utilization of improved free cash flow.

In closing, Mattel executed another strong quarter, and we are very pleased with the first half results. We achieved continued growth in top line and profitability. We further reduced leverage ratio, and consistent with our capital allocation priorities, are making progress towards achieving an investment-grade credit rating. We believe we are well-positioned to achieve our guidance for the year and goals for 2023.

Thank you for your time today, and I will now turn it over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Mike Ng of Goldman Sachs.

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

I just have two on Dolls. First, I was wondering if you could just describe the Monster High opportunity a little bit more. Do you see the potential, the prospects of that getting back to levels seen in the last cycle?

And then second, I was wondering if you could talk a little bit about the rollout strategy for Disney Princess next year. What is that ramp-up going to look like?

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

Sure, Michael, it's Richard. So on Monster High, first off, we're incredibly excited about the relaunch of the brand. We've dropped some collector products already. Much success. We're anticipating a great new launch with our animated series, live-action television movie musical, which will launch on Nickelodeon this fall. We've also got incredible lineup of new product that's going to be rolling out for a whole new generation of fans for Monster High. So very, very excited about the relaunch.

And we were not going to quantify or specify the comparison to what it was, but we do believe it will be a top fashion doll and will continue to exceed expectations, certainly from a consumer perspective, and be a very important part of our portfolio going forward. It's also going to have a global rollout next year. So this year is, of course, a U.S. launch, and then globally, you'll see some really robust product rollouts for 2023.

We are also incredibly excited for the Disney Princess return to Mattel with a new, if you will, take on the entire portfolio, leveraging our extraordinary capability and talent within the Doll portfolio. It's obviously a big incremental opportunity for 2023. And really, the brand, as we talked about, is back because nobody designs dolls, develops, manufactures or does it better than Mattel.

We are so excited to unveil our product program. I can't wait to share with you the details. We're leveraging our Mattel playbook, which, of course, is very well known right now and getting better and better, and we expect a meaningful program and a meaningful business as part of our portfolio.

Operator

Our next question comes from the line of Fred Wightman of Wolfe Research.

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

I was just hoping you could sort of rationalize or bridge the net sales performance that we've seen sort of year-to-date and then the fact that you did increase the sales outlook, which seems to imply a pretty meaningful deceleration into the back half of the year. So is there something that you're seeing out there that's giving you pause? Could you just sort of help us understand the thinking for the back half?

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

Sure. I can take that. I think when you look at our results for the quarter, right, so POS is up double digits. But when you look at the first half, we're up low single digits, and we've seen an improving trend post Easter. And what we expect to happen is that as we go into the second half, we expect second half POS performance to be above our first half levels and for Mattel to gain share for the full year. So you see kind of an unwinding of what happened in the first half.

All this is embedded in our '22 guidance, in which we reiterated top line growth of 8% to 10% in constant currency, right? We're significantly above that rate in the first half. But that does imply continued growth in the second half of the year.

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

Makes sense. And then I was hoping -- I don't know if it's Anthony or if it's Richard, but it sounds like there was a little bit of change on the Barbie side that's expected to be comparable with the prior year. I think previously, you were expecting all power brands to grow. So is that just concentrated at the higher price point? Could you sort of expand on what you're seeing there and how you're thinking about that brand going forward, especially with some of these other doll launches scheduled over the next few years?

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

Yes. It's Richard, Fred. First off, Barbie's first half performance has been really strong, growth of 9% as we mentioned, following two full years of strong double-digit growth. We do anticipate the full year to be comparable to '21, which again was the highest year on record. Our Fashion Doll business is continuing to perform well. There was some softness in higher-priced items, specifically the Dreamhouse. That said, we also expect the Dreamhouse will have its second biggest year on record this year.

Barbie, look, continues to be the #1 global doll property in Fashion Doll. It's got widespread brand health. We continue to execute in line with our Mattel playbook. And with the expansion of our brand experiences across a multitude of platforms, amplified, of course, by the Barbie theatrical movie release, which is going to be an incredible event next summer, we are very confident in Barbie's multiyear growth trajectory.

Operator

Our next question comes from the line of Arpine Kocharyan of UBS Investment Bank.

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

I know your POS is up for the quarter and Easter shift obviously helped, but you also have Prime Day shifting kind of in the quarter a bit. Could you give us a sense of what you've seen in retail sell-through when you compare Prime Day-to-Prime Day? And generally, if you could comment what you're seeing in general from the consumer so far into July would be super helpful as investors are all watching how that sort of consumer is going to behave kind of for the back half and trying to read the tea leaves of what they're seeing right now. And then I have a quick follow-up.

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

Yes. So in terms of Prime Day, we had our biggest Prime Day performance ever and are certainly thrilled with our partnership. I would say, with respect to POS, Prime Day does not have a material impact on our quarter or year-to-date performance. As I said a moment ago, we are certainly very pleased with our first half performance. POS year-to-date is up low single digits, and we've seen an improving trend post Easter. So that certainly bodes well.

And as we look to the second half, again, we expect POS performance to be above the first half levels and for us to gain share on a full year basis. So we feel really good about what's ahead in terms of the second half.

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

Arpine, I'll address your question on consumer behavior, just in general, kind of broader. So the industry is growing overall, and we are seeing a positive trend in POS post Easter, as Anthony said. Based on our own internal analysis, the importance of toys for families continue to be high, and most shoppers plan to spend the same or more on toys in 2022 as it did in '21. Purposeful brands and toys are resonating with consumers more than ever. And we -- as we said before, we also expect shoppers to continue to buy and prioritize well-known, trusted brands with a focus on quality.

We have seen a slight decrease in some higher price point items, as we said in the prepared remarks. But demand remained higher than pre-pandemic levels, and we expect traditional holiday season shopping pattern to return, and in general, the consumption pattern to come back. Consumers continue to return to brick-and-mortar stores as these open. And going back to what we always said that the industry has very strong fundamentals, and we do expect it to continue to grow.

One more point that is worth highlighting is the fact that Euromonitor just updated their outlook and they now expect the industry to grow this year at 6% -- more than 6% and exceed $100 billion this year and to grow at the 5.5% CAGR through 2026. So these are some macro feedback and information we have. The industry did very well during the COVID years. We outperformed the industry for two consecutive years. And we believe we are well positioned to continue to do that and gain share going forward.

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

That's very helpful. And then just really quickly, could you talk a little bit about weeks of inventory at retail and how much that's up? I know it should be up year-over-year given the kind of entertainment calendar. But then in terms of kind of inventory on hand, in our mind, you have COGS increase year-over-year, you had really unsustainably low inventories last year that you're comping, plus, and perhaps more importantly, shifting peak production schedules and longer transit times. All of that has to translate to higher inventory on hand. But can you just go over the inventory increase you're looking at and how to think about that because there seems to be a lot of (technical difficulty)

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

Yes, I missed the end of that question. But let me cover the situation on inventory. And I'll start with our owned inventory. As we've talked about before, we have taken proactive steps on our part to build ahead to make sure we have product available for retailers and consumers throughout the year. This includes higher inventories of products tied to theatrical releases this year and in preparation for the Monster High relaunch that Richard talked about.

And then in terms of retail inventories, as we said, our first half sales did benefit from retailers increasing their inventories. As you look at it at quarter end now, retail inventories are up both in dollars and in weeks of supply as retailers ordered product to meet the expected growth in demand. That includes product for the theatrical releases, as well as to increase inventory levels ahead of the holiday season to reduce supply chain risk.

As we look at this inventory, it's healthy inventory. We believe both the owned and retail inventories are at appropriate levels to meet the projected increase in consumer demand for our products. And as I said before, we expect to see improved POS performance in the back half and for Mattel to gain share.

Operator

Our next question comes from the line of Eric Handler of MKM Partners.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD*

A couple of things. One, relative to Street expectations, Hot Wheels was by far the biggest positive surprise. I'm curious if there was anything in Hot Wheels that was unique to the quarter. And secondly, I'm curious if there was any pull forward of direct import shipments that you had in the quarter as well.

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

Thanks, Eric. I'll take the first part of that. Gladly, by the way. Hot Wheels is continuing to just perform incredibly strong. I mean with growth of 31% in the second quarter and 33% year-to-date, we are on track, but no pun intended, for the fifth consecutive year of growth. And the growth is widespread. We're incredibly excited for the second half. We've got great new products, good new segment introductions. Very specifically, our core diecast line and track play sets are performing really well. We continue our momentum with Hot Wheels Monster Trucks.

In addition to that, we've also had accelerated focus on our adult fans. We've been expanding our premium DTC offerings, and we're continuing success in this dynamic new space with NFTs. So there's lots more to share and to come with Hot Wheels. And thank you for that question. We're very excited about the performance of the brand and its future.

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

On the DI part, yes, we did see a shift in the quarter, but are not expecting a material change for the full year.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD*

And just one quick follow-up. You said, Anthony, that advertising as a percent of net sales should be flat with last year, which was 10%. And considering 1Q and 2Q were down relative to the same quarters last year, that would imply a pretty significant increase in advertising promotion as a percent of sales in the back half of the year. Is that just a reflection of you're going to have more product on shelves or maybe you have a little bit of cushion there?

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

Yes. So we are planning for increased advertising in the back half, coupled with more space at retail, as well as new innovation and extensive promotional activations, all designed to drive demand across the portfolio.

Operator

Our next question comes from the line of Gerrick Johnson of BMO.

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

Anthony, maybe you could put a little bit more on the answer to Eric's question about direct import pull forward. Can you quantify how much might have pulled into second quarter that normally would have been in the third quarter?

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

Yes. So we're not going to get into that level of detail. But as we disclosed, we do see a difference between our gross billings performance and our POS, and that's kind of all captured in the context of the increase in retailer inventories that we talked about. And we feel, as I said before, that we're in a good position on inventories as we enter the back half.

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

Okay. Great. And what was -- what changed -- what's the incremental change or changes that encouraged you to ever so slightly increase your gross margin guidance?

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

Yes. So as you've noted, there is a slight improvement in our gross margin relative to our previous expectations. We're now expecting 47% to 48% compared to the prior guidance of approximately 47%. Look, the change was driven by a combination of factors with no single item being material. We continue to expect a significant impact from COGS inflation, more than the 400 basis points we saw last year. And we feel good about the fact that we're able to offset most of that through a combination of pricing, scale benefit from our top line growth, as well as cost savings from our OFG program.

And lastly, what I would say is that over time, we continue to expect the combination of pricing and cost savings will more than exceed the impact of inflation and contribute to margin expansion and help us get to our 2023 goal of 16% to 17% adjusted operating income margin.

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

Okay. Anthony, related to all of that, on your gross margin bridge, you didn't have FX on that table. I'm sure it's lumped in somewhere. So what was the impact of FX on the quarter in terms of gross margin?

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

Yes. So certainly, if you think about FX from a translation standpoint, there was some impact on the dollar value of gross margin, but not on the percentage. And from a transactional standpoint, our hedging program insulated us from volatility in that respect. So from a gross margin percentage standpoint, no significant impact from FX.

Operator

Our next question comes from the line of Drew Crum of Stifel.

Andrew Edward Crum - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Analyst*

If you could address the divergence in growth rate for power brands in North America versus international. Any more detail behind the strength you saw in the quarter for Fisher-Price and Thomas. And then I have a follow-up.

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

I'll take the Fisher-Price and Thomas part, and then we can address the second part of the question. Fisher-Price and Thomas was up 24% in the quarter and 19% year-to-date. So we are on track for a second consecutive year of growth. And in this franchise, also growth has been widespread. We're heading into the second half with expanded distribution at retailers. We've got some incredible innovative products tied to major theatrical summer releases. We've got momentum on Thomas & Friends with the global rollout of our new content.

And as always, the back half introduces Fisher-Price Core Innovation Items. We've got lots of new products coming out with Little People, partnerships with our own brand, Barbie and Hot Wheels and Little People Collector. Of course, we'll have extensive marketing to amplify all of our retail commitments. And in particular, we're very proud of Thomas & Friends. The new content has led to increased brand engagement, opening up lots of opportunities across multiple platforms, and we expect to drive momentum heading into '23.

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

Look, with respect to the other part of your question, as we look at our regional performance, 3 of our 4 categories were up double digits in the quarter, North America, EMEA and Latin America. We also had POS growth in all 4 of our regions. And the growth in the power brands played an important part in contribution to the growth in those regions.

And the other driver is in our challenger categories. Collectively, Action Figures had an exceptional quarter benefiting from the theatrical tie-ins to Jurassic World, as well as Lightyear.

Andrew Edward Crum - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Analyst*

Got it. Okay. And then my follow-up, guys, is you've announced several film and television products -- projects, excuse me, that are in various stages of development. Can you remind us what is contemplated in your net sales goal for 2023? And trying to understand what your vision is in terms of the business model. Should we anticipate meaningful contributions from things like consumer product licensing or gross participation fees and that material to your margin goal?

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

Yes, Drew, we haven't sized contribution from our intellectual properties or that part of the strategy. But we did say it's not part of our goals. There is no -- we didn't factor any meaningful contribution from our film slate or licensing and merchandising strategy or gaming for that matter. This is, we've said before, this is growing. It's shaping up strongly. We haven't spoken today about the Barbie movie, but we did address it in the prepared remarks that it is shaping up very, very strongly. It will have an impact, but it's not factored into our guidance nor the other activities that we announced recently. I should say -- I said guidance, I meant goals for '23.

Operator

Our next question comes from the line of Jim Chartier of Monness, Crespi, Hardt.

James Andrew Chartier - *Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst*

(technical difficulty)

license business, how important are these properties to kind of jump starting, growing the overall consumer licensing business? And how big is Barbie's consumer license business today versus kind of prior peak?

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

Jim, your question was caught up at the beginning. Could you repeat the full question for us?

James Andrew Chartier - *Monness, Crespi, Hardt & Co., Inc., Research Division - Security Analyst*

Just how important is the Barbie movie and relaunch of Monster High to jump starting the overall consumer licensing business. And then just how big is Barbie's licensing business today versus kind of prior peak?

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

Yes. First off, I'd say that we've got extraordinary momentum on the Barbie brand preceding any theatrical. So the theatrical is going to be designed to continue the momentum of Barbie. And with that, our consumer product partnership business is also growing and accelerating with the momentum that we have on this -- with this property. So we anticipate with the film, we will have even additional acceleration in the consumer product and overall franchise opportunity as we continue to expand the brand. Whether it be in digital, gaming content, consumer products, the multiyear growth trajectory for Barbie is solid.

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

And I would add, Jim, that while we didn't factor it into our goals, we all understand that success in our IP strategy can be transformative. And this is across all these additional verticals that are very large, all adjacent to the toy industry, but they are large in and of themselves. The goal that we have in entering these verticals is not just to sell more toys, but also to have organic growth, incremental growth within these verticals. And this is the strategy we're employing.

But of course, in success, there is a halo effect. Strong movies will have an impact not just on Mattel Films, but on our brands overall.

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, and thanks for everyone for your questions today. Just in closing, this was another quarter of outstanding results for the company. We are continuing an extraordinary period of growth for Mattel.

Having reiterated and updated our 2022 guidance and 2023 goals, we are entering the second half of the year strongly and look forward to the holiday season, and I'm very happy with the position we are in. We expect to meet the projected increase in consumer demand for our products and gain share going forward.

We always appreciate your interest in Mattel and thank you for following our progress in executing our strategy. Thank you, and I will now turn it back to Dave.

David Zbojniewicz - *Mattel, Inc. - Vice-President IR*

Thank you, Ynon. The replay of this call will be available via webcast beginning at 8:30 p.m. Eastern Time today. The webcast link can be found in the Events & Presentations section of our Investors section of our corporate website, corporate.mattel.com. Thank you for participating in today's call.

Operator

This concludes todays call, you may now disconnect. Thank you for participating. You may now disconnect.
