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MAT - Q3 2014 Mattel Inc Earnings Call

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OVERVIEW:

Co. reported 3Q14 EPS of $0.97. YTD operating income was $417m and 3Q14 operating income was $409m.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Mattel's third-quarter 2014 earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the conference over to Drew Vollero, Senior Vice President. Sir, you may begin.

Drew Vollero *- Mattel, Inc. - SVP, Corp. Strategy, Development & IR*

Thank you, Shannon. As you know, this morning we reported Mattel's 2014 third-quarter financial results. We've provide you with a slide presentation to help guide our discussion today. The slide presentation and the information required by Regulation G regarding non-GAAP financial measures is available on the Investors section of our corporate website, corporate.Mattel.com.

In a few minutes Bryan Stockton, Mattel's Chairman and CEO, and Kevin Farr, Mattel's CFO, will provide comments on the results and then the call will be open for your questions.

Certain statements made during the call may include forward-looking statements relating to the future performance of our overall business, brands and product lines. These statements are based on currently available information and are subject to a number of significant risks and uncertainties which may 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 and 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. Now I'd like to turn the call over to Bryan.

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Thank you, Drew, and good day, everyone. While our third-quarter results continue to reflect headwinds carried over from the 2013 holiday season, I'm encouraged with the progress made on our 2014 priorities to end the year with POS momentum and lower retail and Mattel owned inventories.

While still not where it needs to be, global POS is far better than shipments and continues to improve. In the quarter our global POS was up low-single-digits with international POS up high-single-digits and domestic POS down slightly.

We made substantial progress on retail inventories across the globe and particularly in North America where we ended the quarter with inventory down high teens. International retail inventories were also down with only a few pockets of higher inventory remaining. And excluding the impact of MEGA Brands, our owned inventories were also down about $50 million from prior year, a substantial improvement from where we started the year.

We accomplished all of this as we shifted significant advertising and promotional spending from the first three quarters of the year to the fourth quarter to maximize its effectiveness. North America reflects the biggest shift where we look to spend 40% more in media spending in the all-important holiday season.

So we are making progress and I feel we have put ourselves in a better position to deliver on our 2014 priorities and enter 2015 with positive momentum. But that said, I fully recognize this progress is not reflected in our third-quarter results and as we continue to have a significant gap between our shipping trends and our improving POS.

There are a number of reasons why we continued to face revenue headwinds in the quarter.

First, while core brand POS improved for many of our brands it still remains below expectations.

Second, as a part of our strategy to shift spending to maximize the fourth quarter, we significantly reduced our support in many third-quarter retail promotion programs this year.

Third, shipments in our Girls portfolio declined in the quarter as brands like Monster High continue to sell well, but shipments declined as it faced steep comparisons to prior year.

Fourth, we saw some of our North American retail customers tighten their inventory management strategies.

And finally, in select international markets many customers continue to work down pockets of higher inventory levels as well.

So while our shipments were clearly challenged, our third-quarter results did reflect our commitment to financial discipline as we manage 2014 to realistic revenues and look to optimize the middle of the P&L.

Specifically, gross margins, while down in the quarter, moved back above 50%. This improvement came despite the unfavorable impact of our MEGA Brands acquisition and our continued efforts to clean up inventory, both of which should have a smaller impact going forward.

Our Operational Excellence 3.0 cost savings program delivered significant savings in the quarter and is on target to deliver on its two-year goal of $175 million in gross sustainable savings. And in light of our current performance we tightly managed our SG&A spending down in the quarter.

Let me walk through the quarter in a little more detail. Overall our Girls portfolio is down for the quarter. Global POS for the portfolio remains positive in the mid-teens and is significantly outpacing shipping. Disney's Frozen and our own Ever After High franchise drove incremental sales in the quarter, but it wasn't enough to offset declines in other brands.

Barbie global POS continues to improve and be well above shipping. In the third quarter Barbie POS was down low-single-digits, Barbie shipping is down significantly in the quarter, largely as a result of the reasons I highlighted earlier.

Monster High remains a strong global property. While we are seeing good results with our new fall product, we continue to work through some inventory pockets particularly in international markets. And Ever After High continues to do well as the number five fashion doll property in the US per NPD and looks to be building into a very strong doll brand.

Unfortunately American Girl did not grow in the quarter. We think much of this can be explained given the success we had last year in the third quarter where American Girl grew 20%. Last year's growth was driven by two important events in the quarter -- the successful opening of our retail store in Columbus, Ohio and a significant sales increase as we retired Molly, a very popular historical doll.

This year in the third quarter we did not open any new stores and, while we're encouraged with early results, we didn't re-launch our new BeForever historical doll line until late September. As we look into the fourth quarter for American Girl, our international expansion continues to do well in Canada and we just opened our third shop-in-shop with Indigo Stores in Ottawa, Canada.

And we have two new retail stores slated to open in the fourth quarter. The first store had a successful opening just last weekend in Charlotte, North Carolina. And the second store in Orlando, Florida will open later this quarter in November.

And rounding out the Girls portfolio is Disney Princess which saw significant growth in the quarter driven entirely by the success of Disney's hit movie Frozen. We're happy to see the demand for this property extend beyond its movie launch and we're excited to have the opportunity to maximize Frozen for the next two holiday seasons.

And while we're disappointed to lose the license in 2016 after so many years, we remain a major entertainment partner with Disney on a number of Boys and infant preschool properties.

While higher this year because of Frozen, the Disney Princess business has averaged a little less than $300 million a year since we received the European rights in 2010. As a result we are working on plans to fill this 2016 revenue gap. We know girls love the Princess play pattern, we have deep experience with it and we've had great success with it ourselves in the past.

Barbie alone has had a number of Princess themed executions with product, licensed merchandised and DVDs over the last decade. So we have some time and a number of ideas to fill this 2016 revenue gap and we will share these ideas with you as we get closer to their execution.

Our overall Fisher-Price results are disappointing and show that we have more work to do. While we found some success in parts of our product and marketing execution, we will likely continue to face headwinds into the near future. Global POS for the brand is down slightly and, like many of our brands, POS is outpacing shipping.

At a high level we continue to see pockets of strength in Baby Gear and Laugh & Learn, but they're more than offset by our preschool results. We're seeing positive POS results internationally, which is a strategic priority for us. However, our results in the US are hampered by pockets of high inventory, a lack of POS momentum and softness in key brands like Little People and Imaginext.

That said we are pleased with the strong results of Thomas & Friends, particularly in international markets. But the overall Friends business is down due to tough comps for some our licensed properties.

We are encouraged with the POS and shipping strength in Hot Wheels, which is doing particularly well in international markets. Our basic car and track segments, which highlight the core play pattern for this brand, continue to show strength.

We also like what we see with BOOMco, our differentiated entry in the blaster category. The consumer reviews are great, digital marketing and promotional plans are meeting expectations and we'll support the line with more product offerings in 2015.

And finally, our MEGA Brands integration is doing well. We will talk more about this in a few weeks, but overall our new management has been on the ground since April and is making solid progress on a number of fronts. The construction category globally is growing and our POS is positive and improving.

Shipping continues to be less than POS due to some pre-acquisition inventory carryover from 2013 as well as the transition from third-party distributors to our own sales, marketing and distribution network in international markets. We will formally take over most of the international distribution globally on January 1, 2015.

From a regional perspective, our North American business is down in the third quarter, partially the result of our decision to shift advertising and retail support to the fourth quarter, as well as evolving customer inventory management strategies.

We had mixed results in international, which is also down for the quarter. Asia performance is up with strong gains in China and we also see improvements in Australia. Europe is down as solid gains in Russia did not offset softness in Western European POS and headwinds from pockets of higher retail inventory. Latin America is down as it continues to weather macroeconomic challenges and we made some progress working through our pockets of retail inventory which are impacting our two largest markets.

Going forward the organization is focused to execute the fourth quarter and the all-important holiday season. Our new fall products are hitting the shelves now and we have good representation on many of the hot holiday toys lists. We've been executing our path to purchase work and our spending mix model work and have significantly more advertising and retail promotion spending available in the fourth quarter.

And we have significantly improved our inventory situation, both owned and at retail, which should ultimately help close the POS and shipping gap we have this year.

And as Kevin will review with you in a few minutes, we remain committed to our total shareholder return objectives and our commitment to sound capital deployment, including the dividend.

As we're keen on saying at Mattel, there will be a Christmas, it will come on or around December 25, and I'm confident there will be more Mattel toys under the tree than any other toy company in the world. And now I'd like to turn it over to Kevin Farr, Mattel's Chief Financial Officer. Kevin?

Kevin Farr - ***Mattel, Inc. - CFO***

Thank you, Bryan, and good day, everyone. As Brian said, our third-quarter results reflect our continuing commitment to financial discipline as we manage 2014 to realistic revenues and look to optimize the middle of the P&L. Before I go into the slide deck I wanted to take a few moments to add some detail to the key drivers of our financial performance.

First, as it relates to the top line, Bryan outlined the reasons why our revenues have not been keeping pace with our improving POS momentum. Specifically our third-quarter and year-to-date global revenues are down 7%, yet our global POS is up low-single-digits for the year.

History would tell you over time POS and shipping will align, but over the near-term we have seen dislocations in these numbers from time to time by both brand and market. We believe we are now placing our advertising and trade spending in the right places and at the right time with our investments in the fourth quarter to help us achieve better alignment in the near future.

Next, let's talk briefly about gross margin. As you know, we've achieved annual gross margins at or above 50% since 2009. And while gross margins have had many challenges in 2014 with the acquisition of MEGA Brands, our efforts to clean up inventory, and a change in product mix, we are still committed to our long-term and near-term gross margin objectives.

Our third-quarter gross margin of 50.5% is 330 basis points below last year's record of 53.8%. Despite the decline it still represents the fifth time in the past six years that we've achieved gross margins above 50% in the quarter and it's consistent with our goal of delivering gross margins for the full year of low- to mid-50s range over the near-term.

When you exclude the 150 basis points of our MEGA Brands acquisition, which includes a related 30 basis points of accounting adjustments, the gross margin is the third highest achieved since 2009. However, this is still 180 basis points lower than last year.

About two-thirds of the decline was related to our continued efforts to clean up inventory as well as lower sales leverage on our fixed manufacturing base. The impact of inventory clean up and leverage should lessen as we move forward. And the balance is related to mix primarily due to the recent sales trends in our Girls portfolio.

The good news is that pricing and net savings from OE 3.0 initiatives have roughly offset increases in product costs as we exited our peak production period.

And excluding MEGA, some of the headwinds in gross margin are beginning to moderate as the year-over-year decline this quarter was 180 basis points versus 240 basis points in the second quarter as we're seeing that the relative impact to these specific items is less in the third quarter, which has significantly higher volume.

We continue to expect that MEGA Brands will have a near-term headwind of about 100 basis points, although it has been slightly higher in the past two quarters because of the purchase accounting inventory adjustment.

Looking forward, we remain committed to achieving our near-term objective of low- to mid-50s range as we continue to execute our manufacturing effectiveness programs and cost savings initiatives, but recognize that product mix could be a headwind if recent sales trends in our Girls portfolio persist.

Our commitment to optimize the middle of the P&L is also evident in our SG&A results. As I told you at the beginning of the year, we would manage spending tightly in 2014 with a balanced approach to enable the organization to both execute in the near-term and develop future business drivers for the medium-term. In that regard, we said that our goal for 2014 excluding MEGA was to have a modest increase in SG&A in absolute dollars including funding severance and our strategic growth initiatives.

Consistent with our goal of tightly managing SG&A, our total SG&A spending for the third quarter, including MEGA Brands, was down $18 million to $393 million.

The primary drivers of lower spending were lower accruals for incentive and equity compensation giving our performance to date is tracking below our expectations and the benefit of $11 million of gross savings from OE 3.0 program, which was partially offset by MEGA integration and amortization costs of $15 million, as well as the ongoing MEGA baseline SG&A cost. We expect to continue to tightly manage SG&A for the balance of the year.

And finally, I want to touch on capital deployment. As you know, our business model remains one of strong cash flow generation and we have been effectively executing on our capital and investment framework since 2003. Dividends are an important component of that framework. Dividends are also a critical element to consistently achieve our long-term goal of delivering top third to top quartile total shareholder returns.

Our Board and the management team remain committed to the dividend and it is our preferred way to return cash to shareholders. That commitment is evident today with the Board declaring a fourth-quarter dividend of $0.38 per share reflecting an annualized dividend of $1.52, a 6% increase over the prior year.

We continue to target being a top quartile dividend yield provider and look to pay out 50% to 60% of prior year's EPS. And as we've done in the past, we will from time to time exceed that payout ratio.

After the dividend acquisitions remain a key component of our capital deployment framework where we look to buy great companies like HIT Entertainment, MEGA Brands or ourselves in the form of share repurchases.

We ended 2013 with about $1 billion in cash and have deployed $551 million towards acquisitions and share buybacks year to date compared to $400 million in the first nine months of 2013. We did not repurchase any additional shares in the third quarter. That said, we remain financially disciplined in our approach and continue to execute against our capital investment framework with a focus on ending the year with cash within our targeted range of about $800 million to $1 billion.

Now let's turn to the slide deck to review our third-quarter results in more detail. Starting on page 4 you can see that our worldwide gross sales are down 7% in the quarter and down 7% year to date.

Sales were down both in our North American and international regions impacted by higher retail inventories to start the year, a lack of POS momentum in core brands, a shift in advertising and trade programs in the fourth quarter, certain US retailers that tightened their retail inventory management strategies this year and recent headwinds from Monster High.

And as Bryan noted earlier, we are seeing improved POS and have made good progress on retail and owned inventories, which we believe puts us in a better position to deliver in the all-important holiday season.

Turning to page 5 of the presentation, you can see the brand perspective on sales. Worldwide sales in the Mattel Girls & Boys Brands were down 11% for the quarter and down 10% year to date. Declines in Monster High and Barbie as well as some entertainment properties were partially offset by strength in Disney Princess and the launch of Ever After High and BOOMco.

Worldwide sales of Fisher-Price brands were down 16% for the quarter. Declines in Fisher-Price core brands and tough comps related to a number of our Fisher-Price licensed properties were partially offset by growth in Thomas & Friends.

Sales of American Girl brands were down 7% in the quarter and were flat year to date as the business was up against a very challenging 20% sales comparison last year. Last year's successful retirement of our popular Molly historical doll and a new store opening in the third quarter of 2013 were partially offset by encouraging early results from our re-launch of our BeForever historical doll line which we didn't begin to ship until later in the quarter, as well as our recent expansion to Canada via a partnership with Indigo.

And our new construction and arts and craft brands category, which includes sales of our recent MEGA brands acquisition, continues to be in line with our expectations.

On page 6 we highlight the performance of our North American region. Overall sales for the region were down 7% for the quarter and down 6% year to day. Our international business, as seen on page 7, was also down 7% for the quarter, and down 8% year to date.

We're encouraged to see strength in our Asia-Pacific region driven by China, as well as our emerging markets including Russia. Softness in POS in our core brands and some pockets of higher retail inventories continue to impact our sales in Europe and Latin America.

Now let's review the P&L starting on page 8 of the slide presentation. I've already talked to you about our gross margins for the quarter, so let me focus on our year-to-date trend.

On a year-to-date basis gross margins are down 380 basis points to 49.5%. About 140 basis points of the year-to-date decline is due to MEGA brands, including 30 basis points related to fair market value inventory adjustment. Excluding MEGA, gross margins year to date declined by 240 basis points with about 75% of this variance related to our efforts to clean up inventory and the manufacturing deleverage that occurred due to lower sales volume. And the balance is primarily related to mix.

I've already talked to you about our SG&A expense as seen on page 9 which continues to demonstrate our financial discipline.

Moving to page 10 of the presentation, we summarize the performance of our ongoing OE 3.0 program. For the quarter we delivered incremental Operational Excellence 3.0 gross savings of $41 million and we're on track to deliver our full-year target of around $115 million in gross savings and our two-year target of cumulative gross sustainable savings of $175 million.

And, yes, in a couple weeks at our investor conference in New York I will be talking to about our continuing commitment to continuous improvement programs which will deliver more cost savings going forward.

Turning to page 11, operating income in the quarter was $409 million and $417 million year to date. The decrease in the quarter was driven primarily by lower sales and gross margins, partially offset by reduced advertising spending as we shifted this to the fourth quarter and lower SG&A.

Turning to page 12, our earnings per share for the quarter were $0.97, a decrease of $0.24 compared to the prior year's third quarter. The decrease in EPS was driven by lower operating income including the costs associated with the MEGA Brands acquisition, partially offset by lower tax expense and a reduction in share count.

Over the long term, excluding discrete period tax items, we continue to expect that our income tax rate will be approximately 21% to 22% assuming no changes to current tax laws.

Page 13 outlines the costs related to the MEGA Brands acquisition including the estimated acquisition integration and amortization expenses which impact SG&A, as well as the inventory fair value adjustment which impacts gross margin. We highlight both the actual cost incurred in the quarter and the estimated annual cost Mattel expects to incur in 2014.

For the quarter these expenses totaled $22 million and for 2014 we expect these expenses to be between $70 million to $80 million. This is a $15 million reduction from our earlier forecast as we refined our estimates and realized some efficiencies in our integration efforts.

As expected, the remaining impact of inventory fair market value adjustments was incurred in the third quarter, but the non-cash amortization cost and some integration costs are expected to continue in 2015 and beyond.

We discuss cash flow on page 14. Year to date cash flow used for operations was $144 million compared to $321 million last year. The decrease is primarily due to changes in working capital. Cash flow used for investing activities increased to $604 million due to the acquisition of MEGA Brands.

Year to date we issued $500 million of additional debt and repurchased 3.3 million shares of stock for a total of $128 million. In September we paid out our third-quarter dividend of $0.38 per share which is included in our year-to-date dividend cash payment of $386 million.

Today we announced our fourth-quarter dividend of $0.38 per share. Our cash on hand was $262 million at the end of the quarter, down from $406 million last year.

In closing, we will continue to work through our headwinds and remain focused on executing in the all-important holiday season. Specifically we are looking to end the year with POS momentum and lower retail and Mattel owned inventories while optimizing 2014 profitability.

We continue to be committed to growing our business consistently, growing it profitably and deploying the cash generated in value enhancing ways to reward our shareholders. Our overarching long-term goal remains to continue to consistently deliver top third to top quartile total shareholder returns and we look forward to talking to you more about this in a few weeks.

This concludes my review of the financial results. Now we would like to open up the call for questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions). Sean McGowan, Needham & Company.

Sean McGowan *- Needham & Company - Analyst*

I have a couple of questions. Could you just give us some guidance on the -- sorry to use that word -- some guidance on the -- advertising the sales target? What percentage should we be targeting for the full year?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Good morning, Sean. I think what we have tried to say is for the year we are probably within our range that we talked about, 11% to 13%. And we will probably be in the lower end of that. What we have tried to articulate is that you recall last year we spent probably too much money in hindsight in the third quarter and we tried to shift that spending into the fourth quarter.

I highlighted, for example, that in the US our media spend will be up 40% in the fourth quarter. So we tried to be very thoughtful using our spending mix model results to understand where to spend and when to spend and how much to spend on our brands.

Kevin Farr *- Mattel, Inc. - CFO*

Yes, and I think as Bryan said, we don't give guidance. But I think as we execute in the fourth quarter we want to allow ourselves flexibility to adjust this lever based upon real-time results. But, Sean, I think it is going to be in that range of 11% to 13% for the year.

Sean McGowan *- Needham & Company - Analyst*

Okay. And then related to that, sort of more of a philosophical question. So in conversations that you have with the major customers you need to obviously communicate very clearly and strongly what that advertising commitment is.

Has there been any push back on the timing of that or is there any question of just how much commitment they are going to be expecting? I mean I imagine that affects greatly their willingness to take any inventory, right?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

You would have to ask them about their willingness on inventory. But what I would tell you is we have been very open about our lessons learned on the spending mix model and how we are thinking about spending for the third and for the fourth quarters. These plans get aligned with a fair amount of lead time.

I would tell you as we look to the fourth quarter I know two things -- customers want to sell more toys, we want to sell more toys. And we tried to put the spending together to really optimize the consumer sales of Mattel branded toys in the fourth quarter.

So I think everybody is aligned on that. We are pleased with the retail support we have. I think they are pleased that we're spending more money because the modeling tells us to spend in the fourth quarter. So I think we are all as comfortable as we can probably be as we all suffer a case of the pre-Christmas jitters at this time of the year.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, I think as you would imagine, Sean, we sit down with retailers and plan the holiday season. So we've worked with regard to these plans, we have talked to them about, look, shifting monies from the third-quarter to the fourth quarter when consumer purchasing patterns are such that over 50% of POS occurs in the last three quarters **[Correction: Mr. Farr intended to say that 50% of POS occurs in the last three months].**

And we have aligned our advertising and trade programs with retailers and we are poised to execute. And at this point it's now about consumers coming out and buying our products. And as we have said for the entire year, we've been really focused on driving POS with retailers.

Sean McGowan - ***Needham & Company - Analyst***

Okay, thanks. Last question is on currency. So assuming that current exchange rates prevail throughout the quarter, can you comment on sort of what kind of an overall headwind that might be in the fourth quarter?

Kevin Farr - ***Mattel, Inc. - CFO***

Well, I think we do hedge our transaction exposure, so we are pretty well set on that with regard to that not being a headwind. It is really the translation of our sales and that's -- I think every 1% change in the index has a -- in the US exchange index has a $0.01 to $0.02 impact to EPS. So it depends upon what your assumptions are for that. Year to date I think though we've had a 1% unfavorable impact on top-line sales and only about $0.03 negative impact from ForEx.

Sean McGowan - ***Needham & Company - Analyst***

So you would expect there to be more of a headwind in the fourth quarter then?

Kevin Farr - ***Mattel, Inc. - CFO***

Well, it depends obviously on where rates go and we have hedged a good portion of that from a transactional perspective. The translation of our profits are subject to that -- to the foreign-exchange fluctuation and it depends on where it lands. I have given you the index that you can estimate it depending upon what your assumptions are.

Sean McGowan - ***Needham & Company - Analyst***

Okay, thank you.

Operator

Gerrick Johnson, BMO Capital.

Gerrick Johnson - ***BMO Capital Markets - Analyst***

I was wondering if you'd talk about your point of sale, the comment of it being up globally. There has got to be some closeouts in that and I was wondering if you could give us what your POS would have been excluding those closeouts of excess inventory?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Good morning, Gerrick. We don't really get into that kind of detail when we talk about the POS. But what I can tell you is we look at the products that we developed and launched this year; the POS is consistent with what we've been talking about. So I think we feel very comfortable with the momentum we have across our line.

Is there some closeouts POS in there? Yes, obviously because we've been working on reducing our retail inventories and our owned inventory. But overall we are pretty pleased with what we call the good line POS.

Gerrick Johnson - ***BMO Capital Markets - Analyst***

Okay. And just one more on cash, the cash that is overseas versus the US to support your cash deployment. Will there need to be a repatriation at some point in the near future?

Kevin Farr - ***Mattel, Inc. - CFO***

No, I think we have got access to cash on a worldwide basis. We're in a good position from a liquidity perspective to fund dividends and share repurchases. Obviously we do have access to foreign cash, we could repatriate it, but we don't need to in the near term even though most of our cash is overseas.

Gerrick Johnson - ***BMO Capital Markets - Analyst***

Okay, thank you.

Operator

Tim Conder, Wells Fargo.

Tim Conder - ***Wells Fargo Securities - Analyst***

Just a couple questions, gentlemen. One, if you can talk about the Barbie, Monster High and Fisher-Price. You are making progress, as you have talked about on the call already. But where do you anticipate seeing those properties stabilize on a wholesale basis? I guess what type of time frame would it be towards the end of -- here the end of this year or the first half of next year?

And then secondly, as it relates to the dividend payout. Kevin, you talked about that a little bit, but just kind of looking at the trajectory here and the loss of Disney Princess, how comfortable are you a year, two years staying above that targeted 50% to 60% range?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Good morning, Tim. I guess the way I would approach your question on stabilizing these brands is: number one, I'm not going to give you guidance by quarter in terms of when things are going to happen. What I would tell you is we have a very strong focus on POS this year. And what we have talked about is trying to build POS momentum throughout the year.

Barbie POS has been improving sequentially kind of first half to third quarter and we like that a lot, we think that is good. We've got some good programs in the fourth quarter and for next year as well. With Monster High, we talked about where that brand is. It is still a very strong brand if you just look at the nominal sales and POS of that. And I think when you hear Richard talk in a couple of weeks you're going to hear us talk about a slightly different approach to Monster High.

And on Fisher-Price, we've talked about we have more work to do. Frankly what I'm pleased with is it looks like the international POS on Fisher-Price is beginning to turn. And as you know, we've always wanted to grow the Fisher-Price international business. So I'm not going to say that international is back on track, but it is certainly making a step in that direction. Kevin?

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, I think Monster High looks like Q2, POS was down high teens. When you look at your dividend question, I think the good news about our business due to our strong brands, our portfolio of markets and our portfolio of customers, the company generates strong cash flow even in challenging times.

And as we look at the future, the Board and management remain committed to the current level of the dividend. And I think we will be less focused on the payout ratio in the near term. And we have a strong financial position to continue to pay our dividend.

Tim Conder *- Wells Fargo Securities - Analyst*

Okay. And then one other question, gentlemen. As it relates to I guess a couple of the license-related properties, you've got a strong relationship with Warner and DC Comics. They have just outlined some plans for a very robust movie outlook through basically the end of the decade.

Maybe just any color on that and how that enters into the plans going forward. And the other part of the license question is, any other Disney license expiration or renewal dates coming up here over the next three years?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Well, I guess I would start off, Tim, with -- one of the things that we think is a strength of Mattel is our global footprint as it relates to licenses. So all of our licensees or licensors appreciate that and we still think we are the Company of choice to come to when it comes to licenses.

As it relates to Warner Bros., we have got a long-term partnership with them on a number of things and we are looking forward to working with them in the future on all the great things that they are talking about. We are still a big partner with Disney and look forward to continuing to work with them on Boys and for preschool properties.

We don't really get into license expiration dates with each of these individual partners. But as you recall, most of these licenses tend to be kind of in the three- to five-year period. So we like where we are, we think we have got a great portfolio of evergreen licenses.

As I have said a couple of times, this is one of the few times in Mattel history we have actually looked forward to a Star Wars movie. And as you know, we are launching Star Wars Hot Wheels in the fourth quarter this year. So it is going to continue to be an important part of our growth here. And as some doors close many other doors open.

Tim Conder *- Wells Fargo Securities - Analyst*

Okay, thank you gentlemen.

Operator

Felicia Hendrix, Barclays.

Felicia Hendrix *- Barclays Capital - Analyst*

Just a question on your POS trend. If you exclude Frozen from your POS -- from the POS statistics that you gave us, would the underlying statistics be similar to what you highlighted?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Well, Felicia, I'm not going to get into slicing and dicing our POS. What I would tell you is that if you look across our brands, we are seeing continued sequential improvement in POS. I am pleased with the improvement that we are seeing in international overall. I've talked about Barbie POS improving. Monster High, as Kevin said, is stabilizing. So we like that.

And I guess the other thing that we always talk about, we talk about a Girls portfolio. So within that portfolio we always have some brands growing. And, just like your portfolio, some brands underperform, some underperform. So I can't pull Frozen out of the Girls portfolio because it is part of a very strong portfolio.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, and we are really managing that portfolio overall and looking to optimize the entire performance of the portfolio. Some years it is Monster High driving it and some years it is intellectual property like Frozen driving it. So that is the beauty of having a portfolio of brands in the Girls portfolio.

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay that's -- thank you. And then as far as -- you had mentioned several times you have seen improving Barbie. What do you think is driving that the most?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, I think it is a couple things. Number one, we have talked a lot about the spending mix model. And Barbie is a huge brand, she is still the number one doll brand in the world. And it is a brand that our retail partners like to promote and I think we have just gotten a lot smarter about how we are spending our money and where we are spending our money - that is number one.

Number two, I think we talked last year, or I should say February, about we have invested in the doll, the dolls look better this year than they did last year. We have more activities going on in terms of the accessory part of the business.

So Barbie is not out of the woods yet, but I would say we continue to make solid progress on it. And Barbie is going to continue to be a brand that we spend a lot of time and attention on to make sure she continues to improve her momentum.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, I would say we are still not where we need to be. I think we really are focused on better execution and I think we will be talking to you next week about a focus on bigger and better ideas in 2015 and beyond. And that combination with leveraging the spending mix model and better execution should drive us to where we would like to get to.

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay, thanks. And then just finally, and I apologize if you said this, but I don't think I heard this. You talked about the pockets of international inventory in the quarter. Can you just tell us specifically where those were and in what categories those were?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, we've talked about the fact in Latin America we have got some pockets in our two largest markets there. It tends to be more in the Monster High area, as we have mentioned. There is some in Western Europe. But I think the good news is we have worked through a lot of that in the third quarter, there is just a few spots here and there.

And as I mentioned, we think we're coming into the fourth quarter with probably the best position we've had in the last three quarters. POS momentum is improving, our inventories are in much better shape, both owned and at retail. So I think we are in as good a shape as we have been.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes. So I think it should be a lesser factor. There is still a little bit of pockets in Europe and Latin America, and it's principally around Monster High and Fisher-Price.

Felicia Hendrix - ***Barclays Capital - Analyst***

Okay, all right. Thank you very much.

Operator

Mike Swartz, SunTrust.

Mike Swartz - ***SunTrust Robinson Humphrey - Analyst***

Just a quick question around -- I think you made some comments around inventory or retailers tightening their inventory management this year. Are we supposed to understand that is something new versus the year -- versus years past? And I mean is it just as simple as they are ordering later, they are doing shelf resets later this year than in years past or is there something more to it?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, I would say it is a combination of factors. If you look at -- for example, the timing of resets. Some customers were a little later than last year, some were a little earlier than last year. It really boils down to there is a couple of customers -- and you should, again, check with our customers here in the US to see what their strategies are. But there is a couple that I would say have a sharper focus on cash flow and timing of receipts. Over time we think that is probably good for us and good for them. But it is just as simple as that.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, and I think one of the retailers have been quite public about that. But you should ask the retailers.

Mike Swartz - ***SunTrust Robinson Humphrey - Analyst***

Okay. And then just with the -- I guess the foot traffic environment we have had in the toy category over the past 12 months, I mean are you seeing anything differently? And how does that maybe influence how you're spending on trade, marketing, etc.?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, I always start with our number one objective is to try to create demand for our toys. And then our second job is to make sure those toys are where consumers are buying. So from an internal standpoint that is what we focus on.

If I take a step back and think on a macro basis I think what is encouraging this year is that the toy category has been growing in the mature markets both in Europe and in the US, it is up about 4% or 5%. I think that is very good for the category and it is ultimately good for Mattel.

We have historically invested in a variety of channels to try to make sure our toys are where people are buying. And there is always discussion about what is happening online. We would expect online toy sales to continue to grow. And that is why we continue to invest in our omni-channel capabilities.

Kevin has talked to you about project Launch Pad, that is now being activated at American Girl and we are going to be using that across some other brands as well. We launched our Thomas direct to consumer as another way to become a little more omni-channel focused. So as we look at it, again, we have to create demand for our products and we are going to sell our products wherever consumers want to buy them.

Mike Swartz - ***SunTrust Robinson Humphrey - Analyst***

All right, great, thank you.

Operator

Linda Bolton Weiser, B. Riley.

Linda Bolton Weiser *- B. Riley & Co. - Analyst*

I was wondering if you could just kind of -- I'm sure you will talk about this at your analyst meeting, but your strategy to work on developing new brand platforms. I think you had a strategy to do that every one or two years or something. So could you update us on if you still think that is a wise thing to do?

And related to that, I am just curious if you think that that strategy could put some tension between you and entertainment companies who own intellectual property. Because essentially you are trying to develop your own intellectual property. And does that pit you in competition with those companies that are issuing licenses? So I wonder if that is something you have been thinking about long-term in terms of strategy? Thanks.

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Hey, good morning, Linda. As we think about new brands, there are really three sources of new brands. One, as you mentioned, is partnering with some of our terrific entertainment partners and we hope to maintain those long relationships. The second is creating new brands as we have with Monster High or BOOMco and those are organic.

And we also think about new brands through acquisition with things like our HIT acquisition and Thomas and with MEGA Brands with the MEGA Brand as well as RoseArt. So we really think about those three areas as a source of new brands just not exclusively organic growth.

Having said that, we continue to work on developing new brands, that is important to this industry, it is important to us. We have expanded into new categories which we think is important for Mattel, we have expanded into construction with the acquisition of MEGA and RoseArt into Arts & Crafts. We expanded into outdoor with BOOMco. So we're going to continue to look across the portfolio and look at these various strategies and how to enter.

As it relates to tensions with licensees, I am really not going to comment on that. We are very good, for example, in the doll portfolio with the brands that we have, our organic brands, Ever After High, Monster High, Barbie and of course American Girl. We are going to continue to look at how we can segment the fashion doll market and continue to grow that. We do the same thing with our vehicles business and infant preschool as well.

Linda Bolton Weiser *- B. Riley & Co. - Analyst*

Okay. Can I also ask about Western Europe. I believe you said that your POS was a little bit soft in Western Europe. Can you comment on, is that a function of just the macro environment or the whole toy category there being soft? Or are you just having some issues with certain brands in terms of your market shares?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Well, I would say it is not so much a macro toy issue because, again, the toy category is growing there and so, again, that's we think very favorable. We've had probably some greater inventory challenges in Europe than perhaps we thought at the beginning of the year and we have been working through that.

We have also in Europe been applying some of the lessons learned from our spending mix model and shifting spending out of the third quarter into the fourth quarter. And I won't get into details by country, but as I said, in the US we've been trying to shift significant amounts of media from the third to the fourth quarter.

So, I think it is us getting our spending right and getting ourselves in a better position from an inventory standpoint. Cleaner inventory means we can start shipping new product and I think that is good for us.

Linda Bolton Weiser *- B. Riley & Co. - Analyst*

And just on housekeeping, can you just remind me which of those sub segments BOOMco is being reported in?

Kevin Farr *- Mattel, Inc. - CFO*

It is in the entertainment segment.

THOMSON REUTERS

Linda Bolton Weiser *- B. Riley & Co. - Analyst*

Okay, great. Thanks very much.

Operator

Greg Badishkanian, Citigroup.

Greg Badishkanian *- Citigroup - Analyst*

Fourth quarter of last year was disappointing for you guys and you've had some time to think about some of the issues there. So how do you think you are positioned this year versus last year at this time? Because you've made a lot of changes, you are making some progress in your brands this year. How are you positioned this year versus last year?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Well, I guess I will start by saying I'm not going to give a lot of guidance on the fourth quarter because we don't really manage the business quarter to quarter. But as we look at the fourth quarter, again, we are really focused on three things: number one, improving our POS momentum.

I mentioned in the third quarter we've made progress and that is good. Our intention with the changes we made in our marketing programs is to continue that improving into the fourth quarter. We talked about the fact we need to really work on inventories.

We started with an inventory challenge at the beginning of the year and I think we have done a terrific job through the first nine months of working that through and getting ourselves in a better position there and driving profitability.

As I think about the fourth quarter, we are going to have some headwinds, particularly at Fisher-Price and Monster High. Recall Monster High had record POS and record shipments in the third quarter, and was still doing relatively well from the POS standpoint in the fourth quarter. So that is going to be a challenge for us.

But as I think about the tailwinds we have, we've got MEGA. That is a brand-new business for us and we are very pleased with that. BOOMco, we are into our first holiday season with that. Of course, there is a lot of momentum on Frozen and we are really working hard to capture that opportunity. We've got the American Girl expansion with two new markets here in the US and a third shop in Canada.

I talked about our retail inventories are cleaner. But I really am pleased with our lessons learned from the spending mix model. We are spending more money on media, both digital and analog, and that is good. And as we see this unfold, as Kevin said, we still have some flexibility in the fourth quarter. And as we see things sort of ebb and flow in terms of POS, we are going to have the ability to turn the faucet on a little faster on some brands that need it, maybe turn it down on some others that maybe don't need it so much.

But I would say the most important thing for us is this focus on POS. And as the POS continues to improve, the shipment POS gap ought to begin to close.

Kevin Farr *- Mattel, Inc. - CFO*

Yes, and I think the good news, too, is the toy industry has been doing well this year. It is up 4% year to date. And when we look at the good in our portfolio, obviously Frozen is great for us. We also have BOOMco and we have got MEGA and continued momentum on Thomas. And we have seen challenges on Fisher-Price, Monster High and Barbie, but we are very focused in on executing better in the fourth quarter.

We've got a lot of work done on the path to purchase, and we also aligned our advertising and trade programs consistent with our spending mix model, and we are laser focused on execution this fall. So ultimately, it is going to come out to our consumers coming out and buying our products. And also the other thing is what are retailers' outlook for the holiday season, which we think they are positive on, given the toy industry. But ultimately, how cautious are they going to be given the current economic environment.

Greg Badishkanian *- Citigroup - Analyst*

Good. And just moving to Disney, what would you say the EBIT margins are for that versus the overall company?

Kevin Farr *- Mattel, Inc. - CFO*

I think they are, like all of our fashion doll category or doll portfolio, they are higher than the average.

Greg Badishkanian *- Citigroup - Analyst*

Okay. EBIT, not gross margins, right?

Kevin Farr *- Mattel, Inc. - CFO*

Yes.

Greg Badishkanian *- Citigroup - Analyst*

Okay.

Kevin Farr *- Mattel, Inc. - CFO*

I mean gross margins and EBIT.

Greg Badishkanian *- Citigroup - Analyst*

Right. Okay. And then also because you were selling Disney, maybe it prevented you from introducing some fashion doll ideas. Were you holding back a little bit? Are there some things that you can do now that you don't -- you won't have a relationship in 2016 with Disney that maybe will give you some opportunities to add some new ideas and some new products?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Greg, what I would say is we manage our relationships with all of our licensors across all of our categories, whether it is infant preschool or die cast vehicles or fashion dolls or games, for example. A part of our responsibility is we treat their brands as if they are our own brands. And that is exactly how we have treated Disney Princess and Cars and our Nickelodeon partnerships and WWE and Warner Bros. as well.

So we always treat it like as if it were our own. Having said that, we obviously, as I mentioned, have a hole in our revenue for 2016. We know that fashion doll play is important, we know that the Princess play pattern is very important.

We have I would call it deep and wide experience with Princess play patterns, whether it is in our Fisher-Price Friends business or whether it is in our fashion doll business. And you can imagine that we have a whole bunch of people trying to think very creatively about how we fill this gap. And we will look forward to sharing some of those ideas with you when they get a little closer to reality.

Greg Badishkanian *- Citigroup - Analyst*

Great, thank you very much.

Operator

Eric Handler, MKM Partners.

Eric Handler - ***MKM Partners - Analyst***

Two questions for you. First, on MEGA can you give us a sense of as you transition from the distribution model internationally to taking it more in-house, what type of delta do you think you can achieve by doing that?

And then secondly, you talked about a 40% increase in the fourth quarter for your media spend. And so we're hoping you could sort of break out in advertising and promotion expenses how much of that bucket is media spend. And then what is in the other bucket? And I am assuming in that other bucket we are going to see a decrease to sort of offset that on a year-over-year basis. So wonder if you could talk about that.

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, let me take your last question first. I'm not going to get into details about the marketing plans for all of our brands and media. What I would tell you is, again, based on the spending mix model lessons learned that with have throughout the year and we've been validating it quarter by quarter to make sure that we feel comfortable with the results and the validations have been we think very positive.

But the most important thing is we are shifting money into the fourth quarter. And again, as we discussed in our February meeting with you, in hindsight last year in 2013 we wish we would have changed the mix. We have done that this year. I would say we are going to be much more fluid in how we spend whether it is on analog media or digital media or promotions. But we have gotten I think very analytical about how we think about that.

Kevin Farr - ***Mattel, Inc. - CFO***

And I think with regard to that shift, 40% shift is in the US. The international markets aren't that big, but we do have a tremendous amount of spending in the fourth quarter and what we have done is realigned that spending according to our spending mix model.

So our expectation is with even our existing spend base last year we should drive better top-line revenues because we think it is on the right platform at the right time, at the right price with the right retail promotions also happening.

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Then as it relates to MEGA, I'm not going to give guidance on how big a POS and sales bump we're going to get by taking this over. What I would tell you is that we have had a good relationship with these distributors. I know MEGA did over the years as they have done a nice solid job for it. But I think there are a couple of things that we're going to see.

Number one is you eliminate the distributor mark-up which tends to get the prices probably a little higher than they ought to be. So I think as we take this over you are going to see sharper pricing and you will see the margins go up on MEGA which is good.

Secondly, as I look at when I am in the markets I see, frankly, pretty good displays in some markets, but in other markets there is room for improvement I would say.

And then finally, I think one of the things that is just as important as is the product on display is the marketing muscle behind it. We have the ability to take all of our experience in international and our scale in international and apply that to not only the distribution side but the marketing side as well in terms of trying to create demand.

And as we all know, the number one job when you expand something international is to create demand. And we think we've got terrific brand and some terrific opportunities to migrate some of our brands like Monster High and other things into MEGA. So we are looking forward to the opportunities.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes and I think they've also had some great global licenses in things like Halo and as we look at some movie properties for next year. So I think there's opportunity to grow it internationally. Right now it is 70% US, 30% international. Most of the international business is in English-speaking countries. So with our distribution platform I think we've got a great opportunity to grow MEGA internationally.

And also our sales will be higher because we will pick up the distribution uplift in sales, so that is a great opportunity for us. And we will provide more detail in a couple of weeks when Geoff Massingberd meets with you in New York for those of you that are attending our investor conference in a couple weeks.

Eric Handler - ***MKM Partners - Analyst***

Great. Just one other follow-up question. When you look at Monster High, and sort of it has come down from its peak in terms of sales. Is there anything particular that you can point to why we are seeing this weakness with Monster High? Is it just the new characters aren't resonating? And along those lines, do you see Monster High now being a finite life type of product or is this still an evergreen type product.

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Yes, Eric, great question. I think there are a couple of things on Monster High. Number one, as we look at the brand I think the first thing we recognize, it is still a huge brand in fashion dolls just in terms of nominal sales of POS it is still quite large.

One of the things that you are going to hear Richard talk about in a couple of weeks is that we are thinking about making it a little more relevant and irreverent, which is really what drove it at the beginning. And so, that is I think very important as we begin to kind of dial up the energy behind this.

Secondly, I think as you think about this brand it has been a tremendous brand in terms of the launch. And now it is kind of transitioning to an evergreen brand. And we are looking at the spending mix model on Monster High just as we have on Barbie and some other brands. And we're likely to start to shift some of the mix of what we spend on Monster High to recognize the fact that it is out of its initial launch phase and now more of an evergreen brand.

So to summarize, we need to bring a little more shock value to it and that is appropriate given the older girl target for Monster High. And we are going to look at changing our spending mix to really recognize where it is in its lifecycle. But we are keen on Monster High, it is big and it is going to be an important part of our portfolio.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes and I think, again, I think if you looked at this past year I think it's been more about more dolls. And I think as we look at 2015 we are going to re-inject some irreverence and some shock value and also change some of the forms. So I think we've got some ideas to transition this to an evergreen brand. And I think, as Bryan mentioned, one important element of that really is putting more advertising dollars behind it which we are doing this fall.

Eric Handler - ***MKM Partners - Analyst***

Great, thank you.

Operator

Jaime Katz, Morningstar.

Jaime Katz - ***Morningstar - Analyst***

I have a quick question. You guys mentioned omni-channel briefly and I know in the past you have talked about changes you are making. Are there any new initiatives to better connect to consumers in a measurable way that you would like to share with us?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Hi, Jaime. We have talked in the past about our Launch Pad program that we are really sort of focusing the initial launch of Launch Pad, pun intended there, with American Girl. And we are pleased with the progress and the execution of that so far.

Our objective is next year to really start to think about how we apply this to other parts of Mattel in terms of connecting consumers with us. It is a very rich platform in terms of our ability to connect with consumers, communicate with consumers, market to consumers.

We have got a lot of work ahead of us on it, but I would say we feel pretty good about that. And as you think about omni-channel, it really is a couple things. It is how you connect with consumers, it is things like making sure we have the right websites and connections there. It is email connections with consumers. It is event connections with consumers.

And then we have to think about channels. And again, we really spend a lot of time on channel management to make sure our products are where consumers want whether it is e-commerce, whether it is a kiosk in Spain, a hypermarket in Brazil or a toy specialist in France, we really work to make sure our products are where consumers want to buy them.

So, it is not as simple as it is one project or one initiative, there is a whole fabric of things we are doing to make sure that we are well-positioned for an omni-channel strategy.

Kevin Farr - ***Mattel, Inc. - CFO***

Yes, I think Launch Pad has brought us this state-of-the-art platform to have digital marketing at the right place at the right time on the right platform no matter what platform that is. And we have been doing a lot of work this year on path to purchase and really focusing on improving our digital capability so that as a consumer goes down the path to purchase and gets to conversion, we have the right message at the right time in the right place to hopefully convert more of them this year.

And we know that 80% of people before they shop are online or on their digital platforms focusing on understanding the -- what they want to purchase. They sort of get that down to a couple and 20% of them buy online, the other 80% go to brick and mortar. So that is why these omni-channel capabilities are important. And we have done a lot of work in this past year to execute better this fall.

Jaime Katz - ***Morningstar - Analyst***

Okay. And then lastly, unless I missed it, can you comment a little bit about what is working in Latin America and what isn't? It had been a pretty promising area for growth for you guys in the past.

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, we are still bullish on Latin America. If you look to the fundamentals of Latin America you have a lot of middle-class household formation. And we know that is one of the key drivers of toy category growth.

We've also talked about in the past that if you look at our shares in Latin America they tend to be higher than what you see, for example, here in the US. And that is because we have been there a long time, we have invested in our brands there for a long time. So we are still bullish in Latin America.

I think there is a couple factors that are impacting where we are today. Number one is macroeconomics and you can all read the stories about what is now called the Atlantic coast of Latin America and the political and economic challenges there. And we are seeing that both in terms of consumers and customer responses to that.

And that secondarily, we spent a lot of time this year talking about our inventory challenges, both owned and at retail. Latin America has had those as well, particularly in our two largest markets, Mexico and Brazil. So I think once we work through that and we are going to continue to invest in our brands and continue to invest in channels and regain the momentum that we had in Latin America. We still love it, it is a great place, it is about $1 billion of business for us and we make good money there.

Jaime Katz - ***Morningstar - Analyst***

Thank you.

Operator

Drew Crum, Stifel.

Drew Crum - ***Stifel Nicolaus - Analyst***

So, on the Disney Princess license can you remind us what the selloff period is for that in 2016?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Drew, I will have to get back to you on the details on that, but we are essentially going to drive everything we can with POS with Frozen and the rest of Princesses through not only this holiday season but the next holiday season as well. So we have two more holidays to drive POS and partner with Disney on that.

Drew Crum - ***Stifel Nicolaus - Analyst***

Got it, okay. And then you touched on this to some degree, but can you get into some more detail on the variance in POS domestically versus internationally? My sense is that a big part of that is Fisher-Price. And so, as you look at the fourth quarter beyond the increase in media spend and some of the innovation you have across the other categories, is that enough to overcome the weakness you are seeing in Fisher-Price? And do you have confidence that you turn positive POS in the fourth quarter?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, right now from a Company standpoint we are positive. We said that globally we are up a couple percentage points, international is strong single-digits and the US is kind of flattish. As we look across the line we are making good progress in terms of our sequential improvement in POS.

On Fisher-Price I mentioned that international POS is positive and we like that. I think as we've shared with you in the past, international is much less developed for Fisher-Price than it is, for example, on Barbie or Hot Wheels.

So as you kind of do the math you have to have a pretty substantial improvement in POS in international to offset softness in the US. And I mentioned we are likely to have some headwinds still in the US on Fisher-Price with some brand momentum issues and some inventory issues as well.

And as you know, the Friends business is a very US centric business and we've got some challenges there as well as we have some properties that are facing some top comps. And we have some good new properties like, for example, Dora and Friends and we are waiting on that great new show to create engagement.

So that is kind of my Fisher-Price specific. But I would tell you again, international POS is up. If you look at our four core brands for international it is up across all four. We think that is encouraging. So again, as I said on Fisher-Price and I'll say it for Mattel and international -- I'm not going to make the statement we're back on track, but we are certainly making a solid step towards getting back on track on international.

Drew Crum - ***Stifel Nicolaus - Analyst***

Okay. And then just one last question for me is -- there was a question earlier about the Time Warner, the DC film slate that was announced yesterday. Assuming that the license you have runs parallel with that slate, does that in any way change your philosophy around licensing your own IP for movies to other studios?

Bryan Stockton - ***Mattel, Inc. - Chairman & CEO***

Well, I would say generally not. We have some IP that people always find interesting and we have got some projects underway in various stages and studios. And it is very difficult, as you know, to create a great movie. We always partner with whoever is interested in our brands. We have yet to have a theatrical release.

I think our philosophy has always been we like to focus on our day in day out marketing whether it is Barbie DVDs or advertising or better end caps for Hot Wheels, for example. So our Company is all about everyday marketing, everyday consumer engagement. We like to partner with our entertainment partners on their movies. If we were to get a Barbie or Monster High or Hot Wheels movie that would be great, but that is really not core to what drives our brands.

Drew Crum *- Stifel Nicolaus - Analyst*

Got it, okay. Thanks, guys.

Drew Vollero *- Mattel, Inc. - SVP, Corp. Strategy, Development & IR*

Operator, we have time for one more question.

Operator

Stephanie Wissink, Piper Jaffray.

Maria Vizuete *- Piper Jaffray - Analyst*

This is actually Maria Vizuete on for Steph. We are just wondering as it relates to the decline of American Girl, we are wondering if you can provide us some color as to what percentage was related to anniversarying the Molly doll versus declines in ticket or transactions? And are there any similar headwinds in Q4?

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Hi, Maria, welcome. I'm not going to get into any specifics on American Girl. I think we were pretty clear that if you look sort of year on year last year we opened a very successful store in Columbus, Ohio. We didn't open any stores this year in the third quarter. We have two store openings in the fourth quarter, we had one last year, and we have another shop-in-shop opening with Indigo in Ottawa, Canada. So that is encouraging I think for American Girl.

You know, the BeForever -- it is a launch of our historical line and we have always had a very strong position in that particular segment. But we really like what Gene McKenzie and her team has done to sort of refresh that line and breathe some new life and make it a little more contemporary. And I know we're all excited for Gene to share her vision of that with you in a couple weeks.

Maria Vizuete *- Piper Jaffray - Analyst*

Great, thank you. And then just last question on trends in Barbie. Can you talk about the trends in the US versus international? And also, is there any color you can provide on the ready-to-wear collection that retailed during the quarter? Thank you.

Bryan Stockton *- Mattel, Inc. - Chairman & CEO*

Well, if you think about Barbie, I mentioned that the Barbie POS is kind of low-single-digits **[Clarification: Barbie POS is down low-single-digits as Mr. Stockton indicated in his upfront remarks]** and that is a marked improvement over where we have been. Historically international has always had slightly stronger POS trends than the US and I would say that is still consistent. So that is I think about as far as I'm going to go on Barbie POS.

As it relates to the ready-to-wear, I can tell you that I personally was a big purchaser of that for my granddaughter. But no, I am not going to get into specifics on that one either. But it is a terrific partnership and it was very, very successful.

Maria Vizuete *- Piper Jaffray - Analyst*

Great, thanks so much.

Drew Vollero *- Mattel, Inc. - SVP, Corp. Strategy, Development & IR*

Thank you. There will be a replay of this call available beginning at 11:30 AM Eastern Time. The number to call for the replay is area code 404-537-3406 and the pass code is 382-1440. Thank you for your participation in today's call.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day.