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# EDITED TRANSCRIPT

MAT.OQ - Q4 2021 Mattel Inc Earnings Call

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**OVERVIEW:**

Co. reported full year 2021 adjusted operating income of $763m and adjusted EPS of $1.30. For 4Q21, Co. reported net sales of $1.795b, adjusted operating income of $264m, and adjusted EPS of $0.53. Expects 2022 constant currency net sales growth of 8-10% and 2022 adjusted EPS to be $1.42-1.48.





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

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Mattel Fourth Quarter 2021 Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to turn the conference over to your speaker for today, Dave Zbojniewicz. You may begin.

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

Thank you, operator, and good afternoon, everyone. Joining me today are Ynon Kreiz, Mattel's Chairman and Chief Executive Officer; Richard Dickson, Mattel's President and Chief Operating Officer; and Anthony DiSilvestro, Mattel's Chief Financial Officer. As you know, this afternoon, we reported Mattel's 2021 full year and fourth quarter financial results. We will begin today's call with Ynon and Anthony, providing commentary on our results. After which we will provide some time for Ynon, Richard and Anthony to take your questions.

To help supplement our discussion today, we have provided you with a slide presentation. Our discussion, slide presentation and earnings release 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, from which we exclude the impact of a noncash tax benefit associated with releasing valuation allowances on deferred taxes, earnings before interest, taxes, depreciation and amortization or EBITDA; adjusted EBITDA; free cash flow; free cash flow conversion; leverage ratio; and constant currency.

In addition, we present changes in gross billings, a key performance indicator. Please note that we may refer to gross billings as billings in our presentation and that gross billings figures referenced on this call will be stated in constant currency unless stated otherwise.

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. In the second quarter of 2021, we elected to revise prior periods for certain immaterial, out-of-period adjustments that do not require us to amend previous filings.

These adjustments are reflected in our fourth quarter earnings release and slide presentation, and will be reflected in our 2021 annual report on Form 10-K. These adjustments will also be subsequently updated on the financial history section of our Investor Relations website at a later date.

Before we begin, I'd like to remind you that certain statements made during the call may include forward-looking statements related to the future performance of our business, brands, categories, and product lines. These statements are based on currently available information and assumptions, and they are subject to a number of significant risks and uncertainties that could cause our actual results to differ from those projected in the forward-looking statements, including risks and uncertainties associated with the COVID-19 pandemic.

We describe some of these uncertainties in the Risk Factors section of our 2020 annual report on Form 10-K and on our Q3 2021 quarterly report on Form 10-Q. Our earnings release and the presentation accompanying this call and other filings we make with the SEC from time to time as well as in 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.

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

Thank you for joining Mattel's Fourth Quarter and Full Year 2021 Earnings Call. I hope you and your families are staying healthy and safe. Mattel's results for the quarter and year came in well ahead of expectations, capping another exceptional performance by the company. 2021 was a pivotal year for Mattel. We achieved very strong results and continued to improve profitability, accelerate top-line growth, and made important progress toward capturing the full value of our IP.

Our team managed through major global supply chain disruption in trying to fulfill the extraordinary increase in consumer demand to ensure there were plenty of toys for families this holiday season. Key highlights for the fourth quarter compared to prior year, our net sales were up 10% as reported, and 11% in constant currency, the sixth consecutive quarter of year-over-year growth.

Adjusted EBITDA was $321 million, up $48 million, and adjusted EPS improved by $0.13 to $0.53. Key highlights for the full year as compared to 2020. Our net sales were up 19% as reported and 18% in constant currency, the highest annual growth rate in decades. Adjusted EBITDA was $1.007 billion, an increase of 43%.

Adjusted EPS increased 141% to $1.30. Adjusted operating income margin improved from 9.6% to 14%. We doubled our free cash flow and improved our leverage ratio to 2.6. Our strong full-year performance was broad based. We grew in constant currency in six of seven categories in each of our 3 power brands as well as American Girl and in three of four regions. It was also an outstanding year for Mattel in terms of market share. Per NPD, Mattel outpaced the industry and gained share globally for the second consecutive year.

Mattel also gained share in every measured market this year. In the fourth quarter, Mattel was the #1 manufacturer globally with three of the top seven properties. This was the sixth consecutive quarter of share gain. POS was up low-single digits in the quarter and finished up low-double digits for the year. Retail returned to a more balanced omni-channel environment with e-commerce stabilizing.

E-commerce POS was up 2% in the quarter and up 6% for the full year, representing 31% of all POS. Our products resonated with consumers at levels we have not seen in years. We have also been very successful in making Mattel a partner of choice for the major entertainment companies and see this as another growth lever.

In addition to our own IP, we now have a formidable lineup of evergreen properties from Microsoft, Nickelodeon, Nintendo, Universal, Warner Brothers, WWE, as well as Disney. The recently announced multiyear global licensing agreement for the Disney Princess and Frozen franchises builds on the existing licensing relationship between Mattel and Disney. Mattel will have the global licensing rights to develop lines of toys, including fashion dolls, small dolls, and figures for all Disney Princess and Frozen franchises, as well as the upcoming live action film, the Little Mermaid.

The collection is expected to launch at retailers around the globe at the beginning of 2023. The return of Disney Princess and Frozen to our portfolio is a fitting recognition of our strength and capabilities and adds yet another growth driver to our portfolio. The strong quarterly and full-year results across all key metrics are attributed to the quality of our products, strength of our brand portfolio, capabilities of our team and successful execution of our multi-year strategy to transform Mattel to an IP-driven, high-performing toy company.

Our turnaround is complete. We are now in growth mode. Looking at gross billings in constant currency by category versus the prior year, Dolls gross billings grew 14% in the quarter, led by gains in key power brand, Barbie as well as Spirit, Polly Pocket, and Enchantimals. POS was up low-single digits.

Mattel continued to gain global market share within Dolls, increasing 1.3 points in the fourth quarter, per NPD. For the full year, Dolls gross billings grew a significant 21%. Barbie was up 19% in the quarter. POS was up low-single digits.

2021 was a remarkable year for Barbie. Gross billings increased by 24% and reached the highest level we have on record. Barbie was the #1 overall toy property globally, in both the fourth quarter and full year, for the second consecutive year per NPD. American Girl gross billings declined 6% in the quarter compared to the prior year, which benefited from the very successful historical character launch. This was partially offset by growth across most other segments. The American Girl turnaround strategy is working. With this cherished brand growing 4% for the full year. We continue to see positive results across key metrics and our expanded DTC strategy.

Vehicles declined 3% in the quarter with temporary manufacturing closures impacting Hot Wheels stock availability. Currently, all of our factories are open with minimal disruption to operations. Category POS was up low-single digits. For the full year, Vehicles gross billings grew 12% to achieve the highest full year on record. Hot Wheels gross billings declined 5% in the quarter, with POS up low-single digits.

For the full year, Hot Wheels grew 11% to achieve its fourth consecutive record year and surpassed $1 billion in gross billings for the first time. Hot Wheels remained the #1 Vehicles property globally, in both the fourth quarter and full year. And the Hot Wheels Singles Assortment was the #1 toy globally in 2021, per NPD.

Infant, Toddler, and Preschool gross billings declined 1% in the quarter, in line with POS. The decline was due to supply chain disruption that impacted Fisher-Price Core and retail closures in Asia Pacific. For the full year, Infant, Toddler, and Preschool gross billings grew 5%.

Fisher-Price Core gross billings declined 2% in the quarter, in line with POS. For the year, Fisher-Price grew gross billings 5% as the brand's turnaround continues to produce positive results. We are planning for growth in Fisher-Price and Thomas in 2022. Fisher-Price was again the #1 Infant, Toddler, and Preschool property in the U.S. and globally for the fourth consecutive year, per NPD.

Also per NPD, Fisher-Price was the #3 global property in the fourth quarter across the industry and improved to be the #2 global property in December, finishing the year as a top 5 global property overall. Thomas gross billings grew 7% in the quarter and 4% for the year, with strong POS in the holiday quarter, solidifying its turnaround.

Our Challenger categories' gross billings together increased 26% in the quarter, led by exceptional growth in Action Figures and gains in Other. POS was up low-double digits. For the full year, the Challenger categories collectively grew 31%. Action Figures gross billings were up 53% in the fourth quarter, driven by Jurassic World and Masters of the Universe. Building Sets was essentially flat, while Games grew 7%. Mattel was the #2 global manufacturer within both Action Figures and Building Sets in both the fourth quarter and full year, per NPD.

And UNO continued to be the #1 Card Game globally, also per NPD. Other, including Plush, performed exceptionally well and gross billings finished up 68%. 2021 was another great year for the toy industry, increasing by 9% per NPD, in spite of major global supply chain disruption and significant retail closures. The industry is expected to continue to grow as children, parents, and caregivers have made toys and play a bigger part of their lives.

At Mattel, working in close collaboration with our retail partners, we outpaced the industry for the second year in a row and expect to continue to gain market share. In recognition of the quality and breadth of our product offering across all categories, we received a record high industry-leading 17 award nominations for the Toy Association's 2022 Toy of the Year awards.

Looking back at what has been achieved over the last few years, Mattel delivered on its strategy to improve profitability and accelerate top line growth, while also making progress towards capturing the full value of our IP. Two of our biggest Mattel films projects move into production this year.

Barbie is in preproduction with principal photography starting next month and Masters of the Universe, our live-action motion picture and development with Netflix is expected to start production this summer. We look forward to sharing more on our entertainment offering and the progression of our strategy overall during our analyst presentation on February 18.

Mattel's full-year results exceeded expectations and reinforced the company's growth trajectory with ongoing momentum and strength across the portfolio. As strong as 2021 was, given our outperformance, 2022 is expected to be stronger. With that, our 2022 guidance exceeds our prior goals, and we now expect net sales to grow 8% to 10% in constant currency.

Adjusted EBITDA to be between $1.1 billion and $1.125 billion, and adjusted EPS is expected to increase to a range of $1.42 to $1.48. As strong as 2022 is expected to be, the outlook for 2023 is even stronger. We are increasing our 2023 goal for top line growth in net sales in constant currency to high-single digits from mid-single digits previously. We are updating our adjusted operating income margin goal in 2023 to approximately 16% to 17% of net sales, and we are adding a new goal for 2023 to exceed an adjusted EPS of $1.90.

Anthony will provide more detail shortly. In closing, Mattel's 2021 results capped another year of exceptional performance. The organization once again performed remarkably well and overcame multiple challenges over the past year. We stayed committed to Mattel's purpose to empower the next generation to explore the wonder of childhood and reach the full potential and to our mission to create innovative products and experiences that inspire, entertain, and develop children through play. The company has made significant progress over the last few years on our transformation strategy. Our turnaround is complete. We believe we are well-positioned to continue our strong momentum and are excited to be guiding to even higher growth in 2022 and higher goals in 2023.

I would like to thank the entire organization for their hard work and efforts in growing long-term sustainable shareholder value. I will now hand it over to Anthony to cover the financials in more detail.

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

Thanks, Ynon. We finished 2021 with another outstanding quarter. In the fourth quarter, we generated net sales of $1.795 billion, an increase of 10% as reported and 11% in constant currency. As expected, adjusted gross margin declined by 220 basis points to 49.3% due primarily to cost inflation, which was partially offset by cost savings, fixed cost absorption, and pricing actions.

Adjusted operating income was $264 million, a $64 million increase versus 2020, driven primarily by top line growth. Adjusted EPS was $0.53 in the quarter, increasing 33% versus the prior year. And adjusted EBITDA grew by 18% to $321 million. Our full-year performance clearly demonstrates the improvement in profitability and acceleration of top line growth.

For the full year, net sales increased by 19% as reported and 18% in constant currency, driven by growth across categories and geographies. Adjusted gross margin declined 80 basis points to 48.2% due primarily to significant cost inflation, mostly offset by the scale benefit from higher sales, pricing actions, and cost savings. Adjusted operating income increased by 73% to $763 million as our adjusted operating income margin expanded by 440 basis points to 14%.

Adjusted EPS was $1.30, increasing 141% from the prior year of $0.54. And lastly, adjusted EBITDA, crossing the $1 billion mark increased by $301 million or 43% to $1.007 billion and well ahead of expectations. Turning to gross billings in constant currency for the company and by region.

Mattel gross billings increased by 9% in the quarter. On a full-year basis, gross billings increased by 17%, driven by broad-based growth across the portfolio. Year-end retail inventory was up in dollars, but down in weeks of supply, which we believe positions us well for the first quarter. North America was up 13% for the quarter, driven primarily by gains in Dolls and Action Figures with POS increasing low-single digits. For the year, gross billings were up 21% with POS up double-digits. For the full year, we gained share in North America and retained our leadership position as the #1 manufacturer in the U.S. for the 28th consecutive year, per NPD.

EMEA has been our fastest-growing region. For the quarter, gross billings increased 18% with POS up mid-single digits. And for the full year, gross billings gained 20% with POS up low-double digits. For the full year, we gained share in EMEA in every market, per NPD.

Latin America gross billings declined by 1% in the quarter while POS increased by high-single digits. For the full year, gross billings gained 10%, consistent with POS. We outpaced the industry, gained share, and extended our #1 leadership position in Latin America for the full year, per NPD.

Asia Pacific gross billings declined 7% in the quarter, in line with POS, as the business was impacted by COVID-related retail closures in key markets and supply chain disruption. For the full year, gross billings declined just 1%, in line with POS. Mattel outperformed the industry and gained share in Australia for the full year, per NPD. At the end of the year, nearly all retail outlets were opened in all regions, except for Asia Pacific, which had approximately 6% of stores closed. On a total company basis, this represented approximately 1% of global sales.

Adjusted gross margin declined 220 basis points in the quarter to 49.3%. This was due primarily to significant cost inflation, which had a negative impact of 600 basis points as we continued to experience increases in materials and ocean freight costs.

Going the other way, pricing actions, including those taken in the second half contributed 150 basis points to gross margin. In addition, with double-digit top-line growth, gross margin benefited by 150 basis points from fixed cost absorption, and optimizing for growth contributed $13 million of incremental savings in cost of goods sold in the quarter, a benefit of 80 basis points.

Moving down the P&L. Advertising expenses for the quarter declined 7% to $266 million, reflecting some timing shifts between Q3 and Q4. For the full year, advertising increased by 4% as we continue to drive demand creation to support POS. Adjusted SG&A expenses were $355 million in the quarter, an increase of 2% as we continued to invest in the business while effectively managing our cost structure. We finished the year with another quarter of strong bottom-line performance.

Adjusted operating income increased to $264 million from $200 million in the prior year, an increase of $64 million or 32%. The increase was driven by higher sales volume, the benefit of pricing and cost savings, partly offset by cost inflation. Adjusted EBITDA increased by $48 million in the quarter or 18% to $321 million.

Cash flow generation significantly improved for the full year. Cash from operations increased by $200 million to $485 million. The improvement was primarily driven by gains in net income adjusted for the non-cash deferred tax valuation allowance, partly offset by higher working capital.

Free cash flow doubled from $167 million in 2020 to $334 million in 2021 and was primarily used to reduce debt. Capital expenditures increased to $151 million, $33 million above last year as we invest in Doll capacity to support the high level of growth.

Free cash flow conversion continued to increase as a percentage of adjusted EBITDA, free cash flow was 33% in 2021 compared to 24% in 2020. We believe we are well-positioned to continue improving our conversion percentage going forward. Over time, we believe our free cash flow conversion ratio can exceed 50%.

Taking a look at the balance sheet. Cash balance at year-end was $731 million compared to $762 million in the prior year. Long-term debt declined by $284 million to $2.571 billion. The debt reduction was funded by our free cash flow generation. Accounts receivable increased by $39 million to $1.073 billion, reflecting our fourth quarter sales growth, while days sales outstanding improved by three days to 54 compared to the prior year.

Inventory at year-end was $777 million compared to $528 million in the prior year. The increase is due to cost inflation and higher inventories to support future growth. In the first quarter of 2022, the inflation currently valued in our inventory will have a significant negative impact to gross margin.

Leverage ratio continues to improve, driven by the growth in adjusted EBITDA and cashflow-driven debt reductions. We finished 2021 with a debt to adjusted EBITDA ratio of 2.6x compared to 4.1x in the prior year. The Optimizing for Growth program is generating significant cost savings. Savings from the program were $29 million in the fourth quarter and $97 million for the full year, exceeding expectations.

2021 savings benefited cost of goods sold by $69 million, SG&A by $20 million, and reduced non-working advertising by $9 million. Looking ahead, we expect the program to deliver savings of $80 million to $90 million in 2022 and are on track to achieve our total targeted savings of $250 million by 2023.

Building on a very strong 2021 performance and continuing momentum, our 2022 guidance reflects the expectation for another strong growth year for Mattel. As Ynon said, we expect to grow net sales in 2022 by 8% to 10% in constant currency. Net sales guidance reflects expected growth in our leader categories, Dolls, Vehicles, and Infant/Toddler/Preschool.

Within these categories, our power brands, Barbie, Hot Wheels and Fisher-Price and Thomas, as well as American Girl, are all expected to grow. Our Challenger categories as a whole are also expected to grow. This is driven primarily by Action Figures, benefiting from entertainment licensing agreements with theatrical tie-ins, including Jurassic World Dominion with Universal and Light Year with Disney and Pixar, and by our Building Sets category, benefiting from new product innovation and expanded distribution.

Full year adjusted gross margin is expected to decline from 48.2% in 2021 to approximately 47% in 2022. We continue to be impacted by high levels of cost inflation, primarily in raw materials and ocean freight. Inflation, which had an approximately 400 basis point negative impact to gross margin in 2021 is expected to be even more significant in 2022.

As I mentioned earlier, much of this is already on the balance sheet and will have a more significant negative impact on our first half results. The negative gross margin impact of inflation will be partly offset by the benefits from pricing actions, the fixed cost scale benefit from top-line growth and anticipated savings from the Optimizing for Growth program.

2022 adjusted EBITDA is expected to increase to a range of $1.1 billion to $1.125 billion, representing growth of 9% to 12%. In spite of the gross margin decline, forecasted growth in adjusted EBITDA exceeds net sales growth as we continue to improve profitability. As a percent of net sales, SG&A is expected to continue to decline while advertising remains relatively stable. With our improvements in profitability, cash flow and reduced leverage, we will provide guidance for adjusted EPS in 2022 as we begin to transition from adjusted EBITDA.

From our 2021 base of $1.30, adjusted EPS is expected to increase to a range of $1.42 to $1.48 per share. Adjusted EPS is benefiting from lower interest expense as we reduced debt in the near term, partly offset by an expected increase in the adjusted tax rate compared to 2021.

With the debt paydown and refinancing actions we took in 2021, our fourth quarter interest expense represents a more normalized run rate going forward, subject to any future debt reductions or refinancing. Capital expenditures are forecast to be in the range of $175 million to $200 million, an increase from prior year as we strategically invest to increase manufacturing capacity in our owned Dolls and Vehicles facilities to support anticipated growth and where we have a significant competitive cost advantage.

With our marketplace momentum, we expect to start the year with strong top-line performance, while margins will be negatively impacted by cost inflation. Our guidance takes into account the anticipated supply chain disruption that we are aware of today, but is subject to any unexpected supply chain disruption, market volatility and other macroeconomic risks and uncertainties.

As Ynon said, looking ahead to 2023, we are increasing our goal for 2023 net sales growth to high-single digits in constant currency compared to the prior goal of mid-single digits. Following two consecutive years of double-digit inflation rates and cost of goods sold, we expect inflation to moderate in 2023.

On profitability, we have updated our 2023 goal and now expect to achieve an adjusted operating income margin of approximately 16% to 17% of net sales. We have made significant progress toward this goal in achieving 14% already in 2021. In addition to the 2022 guidance for adjusted EPS, we are adding a new 2023 goal to exceed adjusted EPS of $1.90.

This will be driven by top-line growth, margin expansion and use of free cash flow. With the improvement in balance sheet metrics, we are rapidly approaching investment-grade metrics, and will now share with you our near-term capital allocation priorities. Our priorities are based on our expectation to continue to significantly improve cash flow going forward.

The #1 priority is to drive organic growth. This will include strengthening core capabilities such as direct-to-consumer, digital marketing, e-commerce, and expanding digital experiences, such as NFTs.

We will also accelerate demand creation to drive category and geographic growth as well as channel expansion. And we will make targeted-strategic capital investments to increase our manufacturing capacity where we have a significant competitive cost advantage.

Our second capital allocation priority is to further reduce financial leverage in order to achieve and retain an investment-grade rating. Our target is a leverage ratio in the range of 2x to 2.5x debt to adjusted EBITDA, which we expect to achieve in 2022. Achieving an investment-grade rating will provide us greater financial flexibility, access to additional liquidity and reduce our cost of capital. One example is being able to transition from our current asset-based credit facility to an unsecured credit facility, supporting a commercial paper program, a flexible structure with more liquidity and lower costs.

Our third priority with the benefit of a stronger balance sheet is to pursue M&A and other corporate development opportunities, which we believe will advance our strategy, improve our growth profile, and create economic value for shareholders.

Fourth, we will repurchase shares as an effective and flexible capital deployment tool to manage our capital structure. Under our current authorization, we have approximately $200 million of capacity.

2021 has been another year of strong financial performance. We have made significant progress over the last four years. And as Ynon noted, our turnaround is now complete. Our guidance for 2022 and goals for 2023 reflect our momentum and confidence in our future performance. We remain focused on executing our strategy and creating long-term shareholder value. Thanks for your time today. I will now hand it over to the operator for the Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

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

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

I was hoping you could maybe just unpack what looks like a pretty big beat in the fourth quarter versus where you guys were guiding previously. Was the biggest surprise just maybe the shipments came in better than you were expecting? Was consumer demand better? Did the pricing hit sooner than you expected? Maybe just where you saw the most upside expectations exiting 3Q.

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

Sure, I can start with that. I think the primary driver of the beat is our top-line performance. And I think the notable thing about it is it was very broad-based across categories, across regions. We gained share in the fourth quarter. That's our sixth consecutive quarter, and we were the #1 manufacturer in the quarter as well. So just a really strong finish and ahead of our expectations.

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

And Fred, I would add that when we say broad-based, this is in 6 of the 7 categories where we operate in each of our power brands, Barbie, Hot Wheels, Fisher-Price and American Girl and also in three of the four regions where we operate. So very comprehensive. There was no one brand or category lifting, everything else, it was comprehensive and not just for the quarter, but the same for the full year. So strong comprehensive performance across the board.

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

Great. And then as we think about Barbie into next year, that business was up 24% this year. I think, Anthony, you mentioned that, that is Doll category is expected to grow in '22 as well. But how should we be thinking about Barbie specifically as some of these new doll brands emerge, right? We have Monster coming back. We have Princess entering the portfolio in '23. Should we be looking at this more from like a holistic Doll portfolio perspective? Should we keep looking at Barbie as sort of a stand-alone? How would you suggest we evaluate the trajectory of that business going forward?

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

Fred, it's Richard. First off, Barbie had what can only be described as a remarkable year. I mean the gross billing is up 19% in the quarter, 24% for the year, incredible momentum as it relates to the brand. I mean this was the highest full year for Barbie that we have on record. The stats are truly amazing. #1, overall toy property globally. This is for both the fourth quarter and the full year, and this is also for the second consecutive year, and we were the #1 U.S. toy property in each week in 2021 per NPD.

Clearly, Barbie is a leader, not only in the industry as a toy brand but also clearly leading the Doll business overall. The brand strength across multiple segments continue primarily driven by the Mattel playbook. Innovation, incredible innovation, fueling growth. We've got particular momentum in our segments, Color Reveal and Barbie Extra, and we're forecasting another year of growth for the brand.

Unbelievable marketing programs driven by our purpose, innovative toys that are connected to our system, we're going to continue to expand brand experiences across multiple platforms, and we'll be sharing a lot more detail not only about the Barbie brand, but our Doll portfolio overall. As a leader in the industry, certainly, Barbie is a key indicator, but we manage our business as a portfolio by category. And so building our brands to complement each other and work with each other to earn consumers' interest and ultimately complement each other using our playbook together. Over the last several years, as you know, we've taken significant steps to transform the organization leadership in the Doll category proves day in and day out that we are the best in class. And we will continue to do that and look forward to sharing a lot more details with you at our Investor Day upcoming on the 18th.

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**Operator**

Our next question comes from the line of Arpiné Kocharyan with UBS.

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

This is Arpiné. Congrats on a stellar quarter. So guidance ranges that are definitely sort of above our expectations. I'm just trying to understand, where is this resounding visibility coming from further into 2023? Is it because of some of the pipeline of entertainment and content that you have? Or I guess, could you maybe share your views on what you think the industry does this year in retail given some of the commentary from your competitor earlier this week on the industry perhaps being (inaudible) down for the year? And then I have a quick follow-up.

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

Let me start and talk about the industry because it's an important context. So we expect the industry to continue to grow. The toy industry is a growth industry. It's been growing for the last 10 consecutive years. It demonstrated resilience during the pandemic. It's been very important in a strategic category for retailers. It's experiential. It drives traffic, very high engagement. The items are not expensive and parents forever, will spend money on children, especially when it comes to quality product and the trusted brand.

As you know, the industry grew per NPD 11% in 2020, 9% in '21. And this is in spite of the major supply chain disruptions and retail closure, and important to say that your reminder is expecting the industry to grow at 5.4% CAGR through 2025 and reach $100 billion in '23. Within this environment, we expect to continue to grow ahead of the industry and gain share and continue to perform well across different categories and strong brands.

Anthony will give you a bit more color on the actual drivers, but it's important to frame the environment where we expect growth and then compound that growth with our own performance.

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

Yes. Our net sales guidance and goals for 2023 reflect our expectation that we'll continue to outpace the industry. Specifically in 2022, 8% to 10% net sales growth, given the right strength across our portfolio, continued growth in our leader categories, growth in our power brands, growth in our challenger categories, driven by Action Figures, benefiting from theatrical tie-ins Jurassic role and Lightyear and also in Building Sets driven by innovation and expanded distribution.

We expect to get off to a strong start and expect strong top-line growth in the first quarter of 2022. And then looking to 2023, as you saw, we increased our goal to grow net sales now high-single digits in constant currency, again, continued growth in our leader categories and mega -- and power brands. We also have a pipeline of catalog IP coming, for example, Monster High in Matchbox.

And also the strength of our entertainment partnership with Disney Princess and Frozen coming online then as well.

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

That's very helpful. And then just a quick second question. What you said under capital allocation was sort of interesting in terms of M&A. I guess what direction are you thinking? What do you think is a great area for you where you can also make sort of 1 plus 1 equal 3. I also saw buybacks in the slide deck and no mention of dividend, which has historically been the direction this board has moved. Based on where the stock is, that does make sense to me, but just -- anything more you could comment on M&A?

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

Yes. It is obviously premature to talk specifically. But I mean, the approach is and the opportunity is to pursue M&A areas that accretive to drive growth for the company, corporate development opportunities that we believe can advance what we do, improve our growth profile and overall create economic value for shareholders. Our balance sheet is about to become another growth driver.

The capacity that we have now, the strength at 2.6x leverage. We're obviously very close to achieving investment-grade credit metrics and that will give us a lot more optionality and the ability to leverage our balance sheet for additional growth opportunities.

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

And just to add, Arpiné, you're correct. Our near-term priorities do not include reinstating a dividend. We believe our approach to capital allocation provides us greater financial flexibility to manage our capital structure to be able to invest in growth and to create value for our shareholders.

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**Operator**

Our next question comes from the line of Steph Wissink with Jefferies.

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

I'm just going to ask the question that I'm getting the most after the close today is just to try to sync up the POS, up low-single, with the sales up 10%. And I think the inventory, Anthony, that you mentioned was up almost 50% on the balance sheet at the end of the year. Just help us think through the triangulation of those measures and kind of how the trade inventory is with your comments that you expect to start the year quite strong and to hit that 8% to 10% top-line growth.

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

Yes. Let me start with the inventory situation. I'll start with retailer inventory because I think there's retailer inventories and then there's our own inventory. In terms of retailer inventories, year-end retail inventory was up in dollars, and that includes in-transits, but they were down in the weeks of supply. So we believe that positions us very well for the early part of 2022. And that retailer inventory is healthy and again, positions us well to deliver another strong growth year.

And as I said a moment ago, we expect to get off to a strong start in 2022. Now in terms of our owned inventory, we're up, right? We ended last year at $528 million, and that increased to $777 million this year. And there's a couple of reasons for that. One is the significant level of cost inflation that we've experienced is on the balance sheet. And we'll also increase inventories to support our future growth.

Again, we believe our owned inventory is very healthy. We're guiding to a strong top line growth in 2022, expect to get off to a strong start in the first quarter. And then with respect to the inventory piece, again, it's in the inventory, which is why we said it will have a significant negative impact on our first half gross margin performance.

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

Okay. Then just as a follow-up, thinking about POS. If you can just help us reconcile usually, when we see shipments exceeding POS in the fourth quarter, there's usually a digestion cycle in the trade for several months, but you're expecting to kind of ship ahead of POS again. So talk a little bit about just giving us the level of comfort that there's not excess inventory moving to.

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

Yes. I think if you look over the full year, it's relatively in line. We came into the year below. We ended the year above and we're down in weeks of supply, which we believe positions us well. When you talk about the POS, we're very happy with consumer takeaway, especially the all-important holiday season. And in the context of Q4, POS was up. We gained share and finished as the #1 manufacturer globally in the quarter per NPD.

And POS on a full-year basis, up low-double digits, again, gaining share for the second consecutive year and expect strong growth in 2022. And I think we're all -- we're very confident in our inventory positions and in our growth outlook and the momentum that we have in the market.

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**Operator**

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

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

Richard, I was going to ask a question on Disney Princess. It's a big undertaking, and I know you're the best in the business in dolls. But does this still resources and human and intellectual capital away from your other doll lines, most notably the relaunch of Monster High.

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

Thanks, Gerrick. The way to think about this is our restructure several years ago by category really leverages the competency and the talent that we have in the context of working together across the portfolio and our proven success, if you will, particularly with Barbie. You look at our playbook, which has been executed incredibly well. On the Barbie brand is almost a case study.

And in that context, you start to see not only in the Doll portfolio, but across the entire Mattel portfolio, the execution against that playbook really worked hard for us. As you know, we have an incredible portfolio of dolls. And in that context, we work hard to complement them and complement them with each other. The Disney Princess and Frozen franchise coming back to Mattel is an extraordinary moment for the company.

They're back because nobody designs, develops, manufactures or market styles better than Mattel, hands down, and we can't wait to unveil and can't wait to apply our playbook approach and we'll create, as you can imagine, incredibly innovative and inspiring lines for these iconic stories and characters. It's going to be a terrific reunion, and we're already very, very excited to present.

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

And Gerrick, just to add a couple of words. It is a great win for Mattel. Disney Princess and Frozen are together, one of the crown jewels of the Walt Disney Company. As you know, a huge wealth of characters and storylines. And it's important for Mattel for 3 reasons. It scares our portfolio as Richard mentioned, as the leader in the Doll category. It's also going to be an accretive growth driver, both in terms of top line and profitability starting in '23. And also, it strengthened our position as a partner of choice as we continue to build our relationships with the major entertainment companies.

So obviously, this is a symbolic milestone in our transformation strategy. But important to say, we do expect to grow it from the current levels. We have the capabilities. We have the expertise, and we definitely know how to develop and grow evergreen franchises. So this is another big driver, and we do expect to grow it from the current levels.

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

Great. I'd like to ask 1 more question, a little bit different topic here. We're seeing retailers delay spring set dates, how does that impact your outlook for the first half?

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

Yes. I don't see it having a significant impact relative to our expectations. As we said, we expect to get off to a strong start top-line in the first quarter, although our gross margins will be impacted by inflation. But I think we're well positioned. And I'll just add that as our new product is hitting shelves, we are very pleased with the performance, and we're in a very good position as we start the year.

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**Operator**

Our next question comes from the line of Mike Ng with Goldman Sachs.

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

I had a couple of follow-ups to the Disney Princess questions. Was that the primary driver of the improvement in the 2023 revenue guidance from mid-singles to high-singles. And then if I recall correctly, I think back in 2014, Princess was in excess of $500 million. Do you see an opportunity to get back to those levels, if not in 2023 over time? What does that ramp-up process look like?

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

Yes. This is one of the drivers that gives us the building blocks for the goals we provided for '23. So it's not the only reason, but clearly, it adds up to our strength and portfolio. And as it relates to size, we haven't provided specific numbers at this point. We don't do that by specific brands. But as I mentioned, we do expect it to grow from the current levels. We believe we have unique skill sets and capabilities and proven track record and a platform that is going -- that is getting stronger and stronger by the day, and we expect to absolutely exceed the current levels of performance.

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

Great. And if I could just have 1 follow-up. The 16% to 17% margin outlook, that's very strong. You also did a really great job of managing OpEx in the quarter. I was just wondering how -- if you could expand on that a little bit, particularly in the inflationary market that we're currently in. Is it simply the cost savings program? Is it something else? Any color there would be helpful.

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

Sure. I can comment on that. As we said, the goal is to achieve an operating income margin on an adjusted basis of 16% to 17% of net sales, and we've made really great progress finishing 2021 at 14%. I'd say there's a combination of drivers. Clearly, 2021 and 2022 have been impacted by high levels of inflation. We expect that to moderate in 2023. We also are off to a great start on our Optimizing for Growth program, targeting $250 million of savings by 2023, that will be one of the key drivers to the margin expansion. We also will experience with our high level of top-line growth the benefit of fixed cost absorption as we scale the business. And lastly, we expect the combination of pricing and cost savings to exceed inflation over time and to contribute to margin expansion.

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**Operator**

Our next question comes from the line of Megan Alexander with JPMorgan.

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**Megan Christine Alexander** - *JPMorgan Chase & Co, Research Division - Research Analyst*

I was hoping you could just talk a little bit more about the cadence of gross margin over the year. You spoke to the pressure in the first half, but would you expect 1Q to be paid pressure from an inflation perspective and kind of sequentially improve from there? And then as you look at the second half, can you recapture the cost inflation from last year such that gross margin could be up in the back half?

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

Yes. So let me give some context first on the inflation environment. I mean, as we pointed out, we continue to be impacted by high levels of cost inflation, which is actually expected to have a more significant margin impact in 2022 than the 400-basis point impact in 2021. Now further details on that inflation, about more than half of it, right, there's on ocean freight, the balance is a combination of resins and zinc as well as higher-than-usual wage inflation in some of our supply chain markets.

Now on a full-year basis, we expect to be able to offset most of that inflation with pricing actions, the scale benefit of top-line growth and cost savings. On the pricing front, we did take pricing in 2021. It had a 150 basis point positive impact on Q4. So we'll get a carryover benefit from that.

We've also made assumptions regarding additional pricing actions in 2022. I'm not going to get into the specifics today, but that's implied in our guidance as well. And as we said earlier, right, with the amount of inflation we have on our balance sheet at the end of 2021, a little bit more pressure on the first half relative to the second half.

**Megan Christine Alexander** - *JPMorgan Chase & Co, Research Division - Research Analyst*

That's helpful. And then I guess just a follow-up to Michael's last question, in terms of getting to the 16% to 17% operating margin next year, do you still expect expansion from gross margin versus 2020 levels of close to 49%?

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

Yes, we're not going to get into specific numbers, but we expect gross margin expansion in 2023.

**Operator**

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

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

Okay. Wondering if you could provide an update on Monster High, the reboot of that brand, where you are in terms of the content production and launch and what the product road map looks like for that brand? And then I got a follow-up.

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

Yes. Sure, Drew. We are incredibly excited to introduce or reintroduce this brand. We're going to be launching it late in '22 and we believe Monster High will be a meaningful growth driver for the company in 2022 and beyond. We have a terrific lineup of live action and animated content to support the launch with our partners at Nickelodeon.

We're not going to provide, obviously, specific numbers for it, but it's got incredible legacy and a fan base that we're looking to excite as well as introduce to new audiences, we'll be utilizing our playbook to amplify the brand, course brand purpose, design-led innovation, incredible cultural relevance and partnerships that are going to be announced and lastly, executional excellence.

Important to say that the brand purpose of this brand is really important, it's to foster a more accepting world where everyone is proud to be their authentic self. And while these are just words, they're really culturally relevant and important in relation to diversity, inclusivity and to consumers overall today. So we're really excited. The brand is more relevant than ever. There's a lot more to share and to come at our Analyst Day, but we couldn't be more excited about it.

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

And I just want to ask the margin question maybe a little bit differently here, Anthony. The net sales guidance through '23 suggests you will test the peak set in 2013. And that year, you guys did an 18% EBIT margin. Your guidance for '23 is about 100 to 200 basis points below that.

Is this just conservatism? Is it gross margin? And is the 16% to 17% a cap? Or do you see upside to that longer term?

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

Yes. First, let me just clarify that these are goals for 2023, not guidance, and we're factoring our current expectations. And the outlook for -- as I said before, the outlook for that margin goal includes a couple of assumptions. One is that following that significant inflation in '21 and '22, that inflation will moderate in 2023.

Implied in our guidance in 2022 is some margin expansion, but not significant. And then as I said before, the continued benefit of our Optimizing for Growth program, some carry over benefit of pricing from '22 to '23 that we'll see gross margin expansion, and we'll continue to scale our SG&A and continue to see declines in SG&A as a percent of sales. And then lastly, that's our goal. I would not say it's a cap, it's a goal at this point. And we have high confidence that we can get to that rate.

**Operator**

Ladies and gentlemen, due to the interest of time, our final question comes from the line of Alok Patel.

**Alok Patel** - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Congrats on the great year. I wanted to follow up on the CapEx guidance. The low end of $175 million is $25 million above 2021 spend. So I wanted to know where the bulk of that CapEx is being allocated.

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

Sure. I can take that. As we said, the 2022 guidance is for CapEx in the range of $175 million to $200 million, and that's an increase from where we were in 2021. And really reflects strategic investments to increase manufacturing capacity in our owned Dolls and Vehicles facilities really to support the anticipated high level of growth. And these are areas where we have a very significant competitive cost advantage. And while we're committed to a capital-light model, our scale and capabilities give us that cost advantage and this strategic investment is expected to increase productivity and yield a very, very highly accretive return on invested capital.

**Operator**

I would now like to turn the call back over to Ynon Kreiz, Chairman and CEO, for closing remarks.

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

Thank you, operator, and thanks to all of you for your questions and interest in Mattel. In summary, 2021 was an exceptional year for the company. Our turnaround is now complete. We are in growth mode. We expect to continue to grow and gain market share in 2022 and 2023 and are not stopping there.

We look forward to sharing more details on our plans and growth strategy at our virtual analyst presentation on Friday, February 18. And finally, if your weekend plans include watching the Super Bowl on Sunday, please take a look at the Barbie Big Game Baby in Rocket Homes and Rocket Mortgage commercial. This is in the second quarter. Don't miss it. It's going to be fun, and I'm sure we'll enjoy it. We'll now turn it back to Dave. Thank you. Dave, take it from here.

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

Thanks, Ynon, and thank you, everyone, for joining the call today. The replay of this call will be available via webcast and audio beginning at 8:30 p.m. Eastern Time today. The webcast link can be found on our Investor page or for an audio replay, please dial 1 (404) 537-3406 with the passcode being 3299196. Thank you for participating in today's call.

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.