THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MAT - Q1 2018 Mattel Inc Earnings Call

EVENT DATE/TIME: APRIL 26, 2018 / 9:00PM GMT

OVERVIEW:

Co. reported 1Q18 results.

CORPORATE PARTICIPANTS

Joseph J. Euteneuer *Mattel, Inc. - CFO*

Mary Margaret Hastings Georgiadis *Mattel, Inc. - Former Advisor*

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

Whitney Steininger

Ynon Kreiz *Mattel, Inc. - CEO & Director*

CONFERENCE CALL PARTICIPANTS

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

Eric Owen Handler *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

Felicia Rae Kantor Hendrix *Barclays Bank PLC, Research Division - MD and Senior Equity Research Analyst*

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

Gregory R Badishkanian *Citigroup Inc, Research Division - MD and Senior Analyst*

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

Luke Chamberlain Hatton *B. Riley FBR, Inc., Research Division - Associate*

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

Timothy Andrew Conder *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Mattel, Inc. First Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to turn the conference over to your host for today's call, Whitney Steininger. Ms. Steininger, you may begin.

Whitney Steininger

Thank you, operator. And good afternoon, everyone. Joining me today are Margo Georgiadis, Mattel's Chief Executive Officer; Ynon Kreiz, who will succeed Margo as Chief Executive Officer following this call; Richard Dickson, Mattel's President and Chief Operating Officer; and Joe Euteneuer, Mattel's Chief Financial Officer.

As you know, this afternoon we recorded Mattel's 2018 first quarter financial results. We will begin today's call by providing commentary on our results. We will then provide time to take your questions.

To help guide our discussion today, we have provided you with a slide presentation. Our discussion and our slide presentation will reference non-GAAP financial measures such as gross sales; adjusted net sales; adjusted gross profit and adjusted gross margin; adjusted other selling and administrative expenses; adjusted operating income or loss; adjusted earnings or loss per share, earnings before interest, depreciation and amortization or EBITDA; adjusted EBITDA; and constant currency.

Our earnings release also includes non-GAAP financial measures. The information required by Regulation G regarding non-GAAP financial measures is included in our earnings release and slide presentation, and both documents are available in the Investors section of our corporate website, corporate.mattel.com.

Before we begin, I'd like to remind you that 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 they are subject to a number of significant risks and uncertainties that could cause our actual results to differ materially from those projected in the forward-looking statements. We described some of these uncertainties in the Risk Factors section of our 2017 Annual Report on Form 10-K, our 2018 Quarterly Report on Form 10-Q, our earnings release and the presentation accompanying this call, in other filings we make with the SEC from time to time, as well as in our other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.

Now I'd like to turn the call over to Margo.

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - Former Advisor*

Thanks, everyone, for joining today's call. First, I would like to address the news announced last week. As you know, effective today, I am stepping down as CEO of Mattel. It has been an honor to work with this incredibly talented team over the last 14 months as we've put in place a clear strategy, roadmap and took aggressive action to transform Mattel into a high-performing toy company again. I would specifically like to thank Richard and Joe for their partnership. During this important time in Mattel's life cycle, Richard has continued to be the brand and creative visionary and a strong commercial leader who now has the right organization, structure and processes in place to deliver consistent results across our regions. Joe has been instrumental to shaping a rigorous cross-functional program of simplification initiatives and a disciplined approach to our investments to restore medium-term growth and profitability. Along with the rest of the board, I am very confident that Ynon is the right leader to take this company to its next stage of growth. I have known Ynon for a decade and have witnessed his strong leadership and track record of successfully driving transformations to accelerate growth. And this is especially true for businesses that thrive on creativity. Ynon has worked closely with me, Richard and Joe, since he joined our board. He is an incredible champion for our business and a great complement to the leadership team. I will continue to serve as an adviser to Ynon, Richard and Joe to ensure a smooth transition. I want to thank everyone at Mattel, our investors and our leadership team for their tireless commitment to inspiring wonder in kids across the world.

Before turning over the call to Ynon, I'd like to provide a few high-level comments about the first quarter. After Ynon, Richard will discuss our brand performance in the quarter as well as the progress we are making against our strategic pillars. Joe will then provide more detail on the quarter, including the plan to address TRU, our progress on Structural Simplification and the strategic investments that we're making to support our future growth.

Turning to the first quarter. While the Toys "R" Us liquidation created some challenges, setting this aside, Mattel is off to a good start with early momentum. Excluding TRU, worldwide revenues were positive in the first quarter with important progress in North America now that POS and shipping are in alignment. The team's hard work in developing our brands as 360-degree play systems and experiences continues to show positive impact with double-digit momentum in both Barbie and Hot Wheels continuing across the globe. And as Joe will explain, we continue to make progress in our Structural Simplification cost savings initiatives and strategic investments, which underpin our plan to restore the growth and profitability you expect from a high-performing toy company.

I will now turn the call over to Ynon to make a few comments.

Ynon Kreiz - *Mattel, Inc. - CEO & Director*

Thank you, Margo. I'm very excited about the opportunity to lead Mattel as its new CEO and deliver on our strategic plan as we return the company to its leadership position as a high-performing toy company. We have a lot of work to do to reach our objectives. But I'm very confident that we have the right plan and the right team in place. And as you will hear today, we are already making strong progress against our strategic pillars.

My immediate focus includes the following priorities: Implementing our Structural Simplification to restore profitability; stabilizing revenue; reinvigorating our concept to drive creativity, which I believe is essential to our success; and strengthening our collaboration with our partners.

Long term, I'm committed to better leveraging our intellectual property to unlock the full potential of this great company. I look forward to working with the talented team here to deliver on our transformation plan and maximize long-term value. And I look forward to speaking and meeting with all of you, our analysts and investors, as we continue to provide updates and discuss our opportunities ahead. I want to thank Margo for her leadership, her hard work and her many important contributions. It has been a pleasure working alongside her at Mattel during my time with her in this company.

I'm happy to take your questions at the end of the call. And now I'll turn over to Richard to take over from here

---

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

Thank you, Ynon. I'd like to start by thanking Margo for her partnership and vision. It has been a pleasure working alongside her to reset the strategic foundation for the company and now we are focused on executing the plan to regain growth, improve profitability and achieve our medium-term objectives.

I would also like to echo Margo's comments about Ynon. I've had the opportunity to work closely with Ynon for several months and I am eager to move forward together and work with the leader who deeply understands the importance of creativity and has a track record of unlocking that value.

Now let me provide a few comments about our performance in the quarter. As you know, we have been on this journey to transform the business. And despite significant headwinds, I can say with conviction that the continuity of the team's efforts to stay on course and execute against our strategy is paying off. And you can see that in the results this quarter.

For the first quarter, excluding the impact of the TRU revenue reversal, gross sales would've been up 2% worldwide. All regions were positive at actual FX except American Girl. Importantly, excluding the impact of TRU, North America gross sales were up 4%, demonstrating the early results of our turnaround. International gross sales were up 5% as reported, which includes a benefit from currency. As you know, we have worked hard to get POS and shipping moving entire alignment across all geographic regions, which is contributing to our results.

Looking ahead, we expect second quarter POS growth will be softer due to a tough comp as a result of 2 factors: One, the year-over-year Easter shift. And two, the theatrical release of Cars 3 in June 2017.

Turning to our brand performance, our Power Brands. Particularly, Barbie and Hot Wheels continue to deliver strong performance across regions. In addition, we now have robust programs in place and an action plan we are implementing at Fisher-Price, Thomas & Friends and American Girl to improve performance over time.

Let me provide a short summary of each. We have been laser-focused on reinvigorating our Power Brands based on a clear vision and purpose. And there is no better case study of progress than Barbie. I'm proud of the team and their continued efforts to sustain and build upon the momentum of this brand. As our performance shows, Barbie is hot in North America and globally. Worldwide gross sales were up 24% for the first quarter as reported and POS was up similarly in double digits. We now have a multiyear trend and a compelling purpose of inspiring girls to dream big, which will impact the franchise opportunity for consumer products, live events and other brand extension opportunities. Barbie is a platform for girl empowerment and I am confident and passionate about where we're going to take this franchise.

I am pleased to report that Hot Wheels is off to a strong start as well this year. Worldwide gross sales as reported were up 15% for the quarter and POS was up similarly. Over the past 2 years, we've been transforming Hot Wheels, moving it from a diecast car to a 360-degree connected system of play. Core diecast performed very well in the quarter as did tracks and play sets with the launch of the new City Line, and continued momentum of Track Builder, which are driving results and reinvigorating the brand. Looking ahead, the Hot Wheels 50th anniversary kicks into high gear on May 17, our official birthday, with multiple exciting execution platforms.

Fisher-Price and Thomas & Friends worldwide gross sales were down 8% as reported and POS was down similarly as we expected, although international POS was positive. POS was down mainly in January and February due to higher clearance sales at retail after a slowdown in the fourth quarter. However in March, the business pivoted with clear signs of improvement in key areas such as infant, Little People play sets and Imaginext, all of which continue to perform well. Additionally, we've had a strong response from retailers to our fall key items. And looking ahead, we will need to carefully manage through the TRU transition as Fisher-Price was the most indexed brand given Babies "R" Us.

As you saw at Toy Fair, we have new leadership and plans in place for improving Fisher-Price's performance. In 2018, we are focused on stabilizing the brand and setting the stage for growth in 2019.

Looking forward, our strategy under Chuck Scothon's leadership is to continue to reinvigorate the brand. We are doing this with strong products that are priced right to provide the best solutions for every age and stage and evolving our strategy to be a true partner to parents. We are also leveraging our proven playbook from China and ensuring consistent retail execution across markets.

Regarding Thomas & Friends. We are excited that the brand has been delivering strong audience ratings on Nickelodeon, ranking as a top-five show among preschoolers on all TV since its debut in mid-March. The early broadcast success bodes well with retailers who are gaining confidence and seeing store sales picking up as a result. We are looking forward to the launch of new refreshed content in the second half of 2018, which we will expect to improve brand health.

Now in American Girl, we've launched a large-scale turnaround program. American Girl remains one of the most beloved franchises in the U.S. and has also proven to perform well in our international partnerships. We are investing in this key franchise because we believe it will contribute significant returns for our shareholders when we get it back on track. Joe will discuss the turnaround plan in more detail in a few moments.

We continue to be focused on rightsizing The Toy Box. And this is the year we're working to transform it into a more stable and profitable innovation portfolio. We now have Geoff Walker, who we met at Toy Fair, leading The Toy Box. He is one of the most recognized toy leaders in the industry, and I'm working closely with him to reinvigorate toy innovation at Mattel. As expected, our Toy Box business declined as we continued to optimize the portfolio to improve stability and profitability.

To help you better track progress, we now break down the performance of Toy Box in 2 categories: Owned Brands and Partner Brands. Our Owned Brands were down 6% in the quarter, largely driven by MEGA. We also had important strength. Enchantimals continues to perform well. And games overall is strong, led by the launch of DOS, which is a sellout in a number of markets. In the second quarter, we are looking forward to the launch of Polly Pocket.

Partner Brands were down 14% as reported due to the timing of launches of select brands. We have amazing partners in our portfolio: Disney, Nickelodeon, Universal, Warner Bros, WWE, all of them have exciting launch programs in the back half as you saw at Toy Fair.

For the quarter, we are looking forward to the Jurassic World movie, which debuts in June. We have gotten great feedback from retailers and early reads at retail are encouraging.

As we work to reshape operations in conjunction with Structural Simplification, we continue to reduce layers, increase speed and agility and maximize the best talent in the toy business. I feel good about the opportunity ahead, with early indications that we are headed in the right direction, delivering what we said we would and gaining momentum with the right team in place.

I'll now turn the call over to Joe to walk through the quarter and our strategic investments in more detail. Joe?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Thank you, Richard, and good afternoon, everyone. Let me start by thanking Margo for being a great partner. She has had a tremendous impact on the organization over the past year and I wish her all the best in her new endeavor. I look forward to partnering with Ynon and believe we are in great hands with him at the helm. I have no doubt that his insights and expertise will be invaluable as we progress our strategy and operationalize our plan forward.

So with that, let's turn to our results. I am pleased to report that our first quarter performance reflects continued progress on executing our transformation plan. We've delivered to our quarterly expectation on the top line with gross sales up 2% excluding the impact of Toys "R" Us revenue reversal. The organization continues to make progress on our $650 million Structural Simplification cost savings initiative and prioritized investments. Our consistent execution on a quarter by quarter basis will enable us to deliver our medium-term objectives for our shareholders.

The Toys "R" Us liquidation is an unfortunate event and a near term headwind in our industry. We have been proactive in taking action to mitigate its impact on our business. As I review the financial performance for the quarter, I will note the areas impacted by Toys "R" Us liquidation and our outlook for the year. Today, I will walk you through the P&L, update you on the balance sheet and liquidity, layout actions against our Structural Simplification initiatives and update you on our strategic investments. We will then open the line for questions.

As I shared earlier, our gross sales in the first quarter were up 2% excluding the impact of the Toys "R" Us revenue reversal. In Q1, we incurred charges of $87 million related to the Toys "R" Us liquidation through a combination of revenue reversal and bad debt expense, which primarily related to the United States and the United Kingdom. Since last fall, we have evaluated several Toys "R" Us scenarios and have a proactive mitigation plan in place. We continue to work with other retailers who are energized by the opportunity to expand our relationship and value this strong performance from our key brands. As a result, the final impact of the Toys "R" Us liquidation will be dependent upon the number of markets that remain in operation and the impact of inventory liquidation on industry pricing and consumer purchase patterns.

As we shape our mitigation plan, one factor taken into account was the fact that Toys "R" Us carry much higher inventory levels than other retailers to deliver the same POS. Over the next several months, we should have a much clearer view of what parts of TRU will remain and the overall impact on our 2018 revenue. As we look to Q2, we expect a decline in year-over-year revenue due to the comparability of the Cars 3 relaunch in Q2 2017 and the impact of the TRU liquidation.

Now let's discuss sales adjustments. The increase from 9.7% to 11.5% for the quarter was primarily driven by the higher weighting of international sales as a percentage of total sales, which is consistent with Q4 2017. We expect our full year sales adjustment rate to be similar to the first quarter and do not expect a significant year-over-year variance for the full year.

At Toy Fair in February, we told you we expected our 2018 gross margin to increase year-over-year into the low 40s, driven primarily by our Structural Simplification cost savings initiatives. We also shared that the timing of those savings would be weighted towards the back half of 2018 and that our freight and distribution challenges from 2017 would likely persist into the first half of the year. Excluding the impact of Toys "R" Us liquidation, the first quarter was in line with our full year plan and we remain committed to deliver a gross margin in the low 40s, with the majority of the year-over-year benefit coming in the back half of the year.

In the first quarter, our reported gross margin was 30.9%, down from 37.9% in the first quarter of 2017. This includes the cost of goods sold associated with the $30 million of net sales reversed as a result of the Toys "R" Us liquidation. Our accounting treatment of reversing Toys "R" Us revenue recorded in the current quarter versus bad debt is consistent with the accounting treatment we used in Q3 2017, when Toys "R" Us originally filed for bankruptcy. Our adjusted gross margin, which was in line with our expectations was 34.1% of net sales, down from 37.9% in the first quarter of 2017. The primary drivers of the first quarter decline were raw materials inflation as well as the continuation of the freight and logistics cost associated with bringing in-house, a previously outsourced distribution facility we described on our last earnings call. This negative year-over-year impact is expected to be concentrated in the first half of the year.

Meanwhile, our Structural Simplification actions, including the recently implemented reduction of labor overhead in our manufacturing plants are expected to be realized in the P&L in the back half of this year. We remain committed to deliver our full year gross margin expectations in the low 40s.

Moving on to advertising. As we shared in February, we expect our full year advertising rate to return to our historical range of 11% to 13% of net sales as we continue to optimize spend. As part of our Structural Simplification, we've developed full year advertising and media plans that are expected to save us approximately $30 million to $40 million versus prior year to meet this goal.

Now let me discuss SG&A. At Toy Fair, we said our 2018 full year outlook for SG&A would be up slightly year-over-year, driven by strategic investments, increased incentives and severance and restructuring costs, partially offset by Structural Simplification. First quarter SG&A was in line with our full year expectation. In the first quarter, our reported SG&A was $425 million, up $94 million year-over-year, which included a $57 million bad debt expense related to the Toys "R" Us liquidation and $25 million of severance and restructuring costs related to overhead reductions as part of Structural Simplification. First quarter adjusted SG&A of $341 million was up $15 million compared to prior year but is on track to meet our full year expectations. This year-over-year increase was driven primarily by unfavorable foreign exchange, increased employee-related expenses, increased noncash amortization and strategic investments, partially offset by cost savings from our Structural Simplification.

Now let me give you an update on taxes. In the first quarter, our income tax benefit was $2.7 million. Our overall 2018 effective tax rate may vary significantly from quarter-to-quarter due to the level and mix of income or losses in our foreign jurisdictions and due to the fact that we established a valuation allowance on our U.S. deferred tax assets in the third quarter of 2017. In the U.S., during periods of taxable loss, we would record no income tax benefit. And during periods of income, we would record no income tax expense as the valuation allowance is released.

In the first quarter of 2018, we provided no income tax benefit for any U.S. losses and recorded an income tax benefit on our net foreign losses in jurisdictions with no valuation allowance or in jurisdictions that don't provide a benefit for losses. Additionally, in 2018, we expect the cash we pay for taxes to be similar to the prior year.

Consistent with what we shared at Toy Fair, we do not have an estimate of the mandatory repatriation tax under the Tax Act today. We continue to believe that cash tax impact of repatriation is not expected to be material to our annual cash flows because we will use foreign tax credits and deferred tax assets that we have on our balance sheet to offset the cash tax payments.

Moving to the balance sheet and liquidity. We ended the first quarter with a cash balance of $527 million, which included the benefit of the $1 billion raised in December 2017, partially offset by the impact of the $250 million debt repayment we made during the quarter.

Another critical component of our business transformation is improving working capital. During the first quarter, our working capital improved by $121 million, primarily due to accounts receivable declining $131 million or 16% year-over-year, resulting in a 7-day reduction in our days sales outstanding. And owned inventory declining by $92 million or 12% year-over-year as a result of higher obsolescence charges taken in Q4 2017 and continuing to tightly manage our inventory.

Moving to the statement of cash Flows. Cash flows used for operations was $274 million for the quarter, which was an improvement to the prior year first quarter usage of $310 million, driven by proactive management of working capital. The primary driver of investing activities was capital expenditures, which were $47 million for the first quarter, down 33% year-over-year. Tooling and plant capital expenditures were the primary drivers of this reduction. Our spend is in alignment with our commitment to reduce full year capital expenditures to about $200 million. The primary driver of financing activities was the repayment of the $250 million of debt due in March 2018.

Additionally, there have been no borrowings against our asset base lending facility. As we work to execute our business transformation, we will continue to focus on our liquidity through management of our cash, working capital and capital expenditures. While we do expect Toys "R" Us to have an impact, we continue to have adequate liquidity through our cash on hand, the availability of our asset base lending facility and access to the market.

Now let me provide an update on our Structural Simplification cost savings initiatives. The organization remains focused on achieving approximately 40% of the $650 million in 2018 with savings heavily weighted towards the second half of the year. Through the first quarter, we have already taken actions toward achieving this goal. These actions are expected to result in full year run rate savings of approximately $165 million, which includes $85 million in SG&A, $50 million in cost of goods sold and $30 million in advertising. Examples of these actions include streamlining and delayering the organization across functions, taking first steps in optimizing our global manufacturing footprint by reducing our plant overhead and optimizing our real estate footprint by closing our New York City office and 3 outlet toy stores, as well as restructuring our Fuhu operations. Each of these actions have been taken with careful consideration to manage impact to our top line and to minimize disruption to our ongoing operations. While these are difficult decisions, we remain committed to treating employees fairly during the transition and believe these changes will make us a stronger and more focused company. Overall, we continue to feel good about our Structural Simplification progress. Importantly, our cost savings initiatives are not dependent on revenue. So we will continue our progress towards the $650 million regardless of the impact of the Toys "R" Us liquidation.

Simultaneous with the cost savings initiatives, we are investing in our business for the future. We said at Toy Fair that we intend to invest $85 million in 2018 to help us deliver our strategy and to maximize shareholder value.

I want to provide you with an update on the progress we are making. Of the $85 million, $70 million is funded from the P&L and $49 million of that has been committed to date.

Let me update you on 2 of our key investment areas. The largest investment area for us is IT, where we have allocated about $30 million of the $85 million to reshaping our operations through a 3-year IT transformation. We have kicked off four major projects, which will help make us leaner, faster and a smarter company.

For business-to-business, we are setting up a modern self-service digital platform for our retail customers, which will make Mattel easier to do business with. It allows end-to-end order management for small to medium accounts with low to no-touch customer support. We are investing in our consumer digital content supply chain to enable a faster shift to omnichannel. These enhancements include simplifying workflows for sales and marketing campaigns, consolidating our marketing and digital sites and experiences, streamlining our in-house content creation and publishing capabilities and improving direct consumer engagement.

We spend over $0.5 billion a year on trade spend, which we can optimize. To enable this, we are standardizing our global trade spend systems and processes to increase consistency and transparency, improving analytics and reduce manual work. We are investing in digital design and development to enable seamless collaboration from product design to market, which will increase our efficiency and agility in a digital first world.

A second key investment which we launched in Q1 is the turnaround plan for American Girl. As Richard mentioned, we believe the value creation opportunity for our shareholders is significant from restoring the iconic brand. Our turnaround plan focuses on 4 areas. The first area is overhauling the omnichannel experience and ensuring we get the price value equation right. This includes reinvigorating the premium retail experience with better merchandising and marketing that inspire kids to want to come back more often. The second area is enhancing customer relationships and conversion through best-in-class data management and CRM and improving the online experience and personalization. The third area is delivering a far smarter sequential direct marketing and loyalty program to increase purchase frequency with American Girl's most avid customers. Last, we will modernize the brand's content ecosystem to both attract new customers and deepen brand passion of existing customers. We have an investment plan in place to enable these important turnaround initiatives for American Girl. When executed well, American Girl has the potential to return to one of our most profitable franchises and is very well-positioned to win in a more experiential and digital first world. We are excited about our plan to revitalize this brand and we will provide updates on our progress. We will continue to provide you with updates on our major investments each quarter. We believe these investments, along with the cost we are taking out of the business, will help reposition Mattel for the future and are confident that over time, they will provide the growth and returns you should expect from a high-performing toy company.

Before I close, I want to sincerely thank the Mattel team for their hard work in the first quarter. Positive sales growth, excluding the impact of Toys "R" Us revenue reversal is a great accomplishment. And to our shareholders, we continue to hold ourselves accountable to the commitments we make to you and can assure you we are taking the necessary steps to create long-term shareholder value.

Thank you for your time today. And we will now open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Tim Conder of Wells Fargo.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Just a couple here. So on Barbie and Hot Wheels, we assumed that again the POS and the wholesale that we are seeing are fairly well on track. I guess that's question number 1. And question number 2, there was a little bit of color given earlier in the week by a competitor. But what are your views on the timetable of the TRU liquidation? When will it be completed? And I guess more importantly to that, completed being out of the stores or that product ultimately being completed in the hands of being sold in end consumer?

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

So Tim, I'll take the first part of the question. It's Richard here. On the Barbie and Hot Wheels front, we are very proud of the performance for the quarter. But as you know, these brands in our portfolio has been in deep work in the context of getting POS and shipment aligned and ultimately, driving the 360-degree play systems that these brands are now getting traction with. But I think we are seeing the beginning results of what we believe is great momentum and Barbie of course having a really terrific quarter, Hot Wheels right behind it. We are excited with the programs that we have to maintain these numbers and we expect to have continued great narration in the future.

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

This is Joe. In regards to the second part of your question, I think everybody is pointing towards midyear maybe in the summer. But it's -- there's so many moving pieces with the TRU liquidation. I mean you got everything going on in Asia. You got what just happened with Smith's, you've got the Canadian deals. So it's really hard to predict.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay, okay. And would we anticipate also, Joe, just going forward here, just a lower minimum level of cash that the company will operate with? And you talked about the liquidity that the company has, the market, the cash on hand, the ABL. And you feel pretty comfortable at this point looking out especially to another maturity of debt you have a year out from now?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes, without a doubt. I mean, remember in December we went out and sort of restructured our capital structure by putting on the $1 billion and then putting the $1.6 billion ABL in place. So we feel good about that. We haven't had to draw on the ABL to date. We are focused on the Structural Simplification program that helps take the cost out of the company. So yes, we know we have the maturity coming up in May of 2019. We feel we have the access to the markets. We feel we are pretty well-positioned.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Margo, best of wishes. And Ynon, welcome aboard.

Mary Margaret Hastings Georgiadis - *Mattel, Inc. - Former Advisor*

Thank you.

Ynon Kreiz - *Mattel, Inc. - CEO & Director*

Thank you.

Operator

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

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

I guess, I'll ask the same question I asked Margo a year ago. Ynon, you come from outside the toy industry. And I guess one criticism we hear within the industry is you don't have toy experience. So what would you say to someone who says you don't have toy experience and what makes you qualified, I guess, to run a toy company?

Ynon Kreiz - *Mattel, Inc. - CEO & Director*

Thank you. Well, nice to meet you. I actually do have toy experience from my work at Fox Kids that I launched and ran and took public. But I bring to this more than 20 years of relevant experience, including having served as Chairman and CEO of three companies. I successfully delivered transformation to create significant value to shareholders. And more than anything, I focus -- I have deep experience in focusing on operations and execution of turnaround plans. So I feel pretty good about where I sit.

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

Okay. And Joe, if you could talk about channel inventory out there excluding Toys "R" Us, how is the channel inventory at all the other retailers looking right now?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Very good. I mean, we are feeling very good about our positioning and working with our customers. So we are -- I mean, we feel like we are getting our mojo back, quite frankly. I mean the team really executed well in the first quarter and we continue to maintain -- we did a great job at year end, bringing down those inventories to a very, very tight level. We continue to monitor that. And we clearly want on a going forward basis to have demand before we have supply.

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

Yes. And as I mentioned as well, our POS is completely aligned. In fact, when we look at it, we're about 20% down in our inventory at this level and feeling really good about the stock levels and our performance, at least that we were in.

Operator

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

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

The name is actually Arpine. Can you hear me?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes, we can.

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

Ynon, welcome aboard. And Margo, best wishes. So before I get into my retail picture question, I just had a quick clarification. When the release mentions excluding Toys "R" Us, it is referring to excluding revenue reversal, right? So then could you quantify what percentage of shipments were to Toys "R" Us in Q1, so literally just taking Toys "R" Us business entirely out of the base in Q1, and then comparing that to Q1 last year, what would be the underlying business up in constant currency or down, I would presume, in constant currency?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

I think those are sort of apples and oranges sort of positioning. We haven't really given those numbers. But remember that the delta probably what you're looking for is probably 2%, give or take. It's probably...

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

Down low single digits?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes.

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

Okay, okay. That's helpful. And then I appreciate the color on the retail on Barbie and Hot Wheels. It seems like those are doing quite well. But could you give what retail sales were in the quarter for your entire portfolio adjusted for Easter? If you have U.S. and international, that would be great. But if you could just share overall retail sales sell through for your entire portfolio in Q1 Easter adjusted.

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes, we can -- we haven't disclosed that information. But we can take a look at that for you. I understand what you're trying to do, the Easter impact to how big it was? I think, we have pretty good momentum. But I don't have that number for you.

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

Arpine, Easter was about two weeks earlier this year, which provided may be mid-single POS digit increases in the quarter. But it's really important to understand that Easter actually didn't drive the quarter. Barbie and Hot Wheels truly drove the quarter.

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes.

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

Right. Right. No, that's helpful. And then on Toys "R" Us, what are your other retail partners telling you for the back half? It's very difficult to forecast this business. There's zero visibility really how the consumer will act in the back half. But what are they telling you in terms of their plans to expand and take advantage of a major specialty retailer going out of business past June when this liquidation would likely be over? Do you have any color on that?

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

Yes, I'll start. Joe can add to it. I mean, I think we're probably all saying the same thing as an industry. We are all having very productive and great conversations with retail partners, including, of course, Walmart, Target, Amazon and others around the world. Everybody is eager about the opportunity to grow their share certainly based on the strong performance in POS that we have currently with our momentum brands like Barbie and Hot Wheels. I also think it's also important to recognize that today, consumers have the opportunity for commerce to take place anywhere. So it doesn't necessarily have to be destination oriented. As we look at our consumer base, we are looking at making sure that we are anywhere they are. They have the opportunity to buy on store, online, on mobile devices and our franchises are so strong and we have the scale. So we in a great strong position despite the near term headwind that Toys "R" Us presents, to really seize the opportunity and engage in many opportunistic conversations with partners.

Operator

Our next question comes from the line of Greg Badishkanian with Citi.

Gregory R Badishkanian - *Citigroup Inc, Research Division - MD and Senior Analyst*

So first question is how realistic is your previous target of achieving flat top line this year if you exclude the Toys "R" Us impact?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Obviously, Toys "R" Us was -- is a big impact to us. Just to size it for you, so if you want sort of the book ends, we did say at Toy Fair, before we knew the liquidation and stuff, that we thought we would be flat on a top line basis. And that was assuming they just announced some store closures. So that was about 25%. And if you go back to our 10-K at the end of '17, we said we were doing about 8% revenue from Toys "R" Us, which is about $400 million. So if you take $400 million, take 25% of that, it's $100 million, that would give you roughly Toys "R" Us for us this year would've been about $300 million. So if you sort of take that book end, we don't think it's going to be that bad because we got Asia. We got Canada we are shipping to et cetera. So we know it's somewhere in between sort of being flat and maximum down to $300 million.

Operator

Our next question comes from the line of Felicia Hendrix of Barclays.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD and Senior Equity Research Analyst*

Ynon, a big picture question for you. I just was hoping you could tell us about your vision and I know that you're going to continue along the path that Margo set out. But clearly you must have your own ideas and own takes on the business. So I was hoping that you could help us understand that early stage.

Ynon Kreiz - *Mattel, Inc. - CEO & Director*

Yes. Look, I'm very excited to be here. The big picture opportunity is to transform Mattel to an IT driven high-performing toy company, that is more efficient, more profitable and has a higher growth trajectory. We have very strong assets, including some of the world's best and greatest toy brands. We have a very good team and we have a strong strategy that I feel very good about. So our focus now is to deliver on our transformation plan and maximize value for the company and our shareholders. This is not going to be easy. There's no denying that we faced significant challenges over the last few years and there are still headwinds in certain key areas of our business. But I feel confident about where we sit and what we have to do to take it on.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD and Senior Equity Research Analyst*

Okay. That's helpful. And we look forward to hearing more about that from you. Richard, I have a few, just clarifications on Barbie. Just help me understand this. So I was wondering if you could help us. What would Barbie sales have been ex Toys "R" Us? And clearly Barbie is having a strong quarter and having momentum. But I was just wondering, how much of the growth that we saw in the quarter is restocking versus the sharp declines that you recorded in the first quarter of '17?

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

Sure. We are incredibly proud of the Barbie brand performance globally and across all accounts. We've had a terrific quarter. As an example of momentum, in connection to what has been, as you know, a lot of work focusing around our message and our product lines, on the purpose of the brand. The You Can Be Anything campaign that you also saw at Toy Fair which highlighted careers and role models has been incredibly well received across the board at every retailer around the world. And we continue to get traction. So Toys "R" Us was an important obviously account for Barbie. But even without Toys "R" Us, Barbie continues to get great momentum.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD and Senior Equity Research Analyst*

Okay. And regarding the restocking versus -- the growth versus restocking question?

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

No. There's no association with any impact that I could speak of that would affect it.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD and Senior Equity Research Analyst*

Well, I guess what I'm really saying is that you had very easy comps versus last year. So how much is it that you're just kind of shipping into a market where the Barbie inventories were just kind of lower?

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

No, well, it's all about our POS. And our POS has been literally double digits around the world. Our inventory was down approximately 20%. And now our stocks are in line with our POS. And so we feel very strong about the quality of inventory that we have. The momentum on the top line is driving of course the shipments. And we feel we are completely in line with where the brand is headed and our inventory models are in line as well. Shipping and POS has been -- never been better in the context of the Barbie brand.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD and Senior Equity Research Analyst*

Okay. That's great. And then Joe, just finally just a balance sheet question. I was just wondering how or when do you plan to refinance the 2019? Do you still intend to tap the 2025 to do that given how they're now trading lower in the market?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes. I mean, look, we just finished the recapitalization with the $1 billion in the ABL. We've got 12 months out to do something. The markets are open to us. My belief is we had a pretty good -- we had a great quarter here and we are working on the next one. So we have some runway room to come up with the answer to that question.

Operator

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

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

I have two for Richard. Richard, I was just wondering if you could comment a little bit about what drove the strong momentum in Wheels, which after I think about three quarters of decline showed a reversal this quarter. And then second, as a follow-up to the comment that you made earlier that Fisher-Price was among the most indexed brands at Toys "R" Us and Babies "R" Us, could you just help quantify for us how much of Fisher-Price's revenue came from Toys "R" Us? And how we should be thinking about that as the rest of the year unfolds?

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

Sure, Michael. So Hot Wheels also had a great quarter on top of what was a really solid year last year, which was as you know, a big vehicle category driven year. We've been working hard on emphasizing within the Hot Wheels brand, moving from just diecast play into complete 360-degree play. Our track business, play sets have all seen double-digit increases and it's really been driven by our YouTube, the content platform, which has been incredibly robust and well received. So to some extent, all the hard work that we're putting in Hot Wheels, building out the 360-degree system of play and marketing in new and relevant ways and digital platforms where our consumers are, you're really seeing the results of that progress. The momentum will continue as we start to have our robust programs, celebrating our 50th anniversary. There's going to be a series of events around the world that will continue to maintain that momentum. And I think we could expect some really great things coming from Hot Wheels as our quarters roll. As it relates to Fisher-Price, we obviously have some bigger impact with Toys "R" Us at Fisher-Price. But as I mentioned, our other partners are incredibly excited about the opportunity that they have to make up that share. And in fact, as you know, Fisher-Price is a gateway brand with relationships with mom, prenatal and families. But the opportunities that people see to capture that Fisher-Price volume is not only product related but relationship. So we are taking advantage of those conversations. We have been taking place for a while as we've known about obviously the challenges with TRU and we are going to continue maximizing opportunities around the world for that brand.

Operator

Our next question comes from the line of Susan Anderson of B. Riley.

Luke Chamberlain Hatton - *B. Riley FBR, Inc., Research Division - Associate*

This is Luke Hatton on for Susan. I just want to ask. So you delivered another strong quarter of international growth. So I was just interested on hearing your thoughts on what is working there? And then, how you're planning on maintaining that growth going forward?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

So I think a couple of things. One is we have a new guy running Europe, who was just really starting to gain some momentum. We reorganized the Asia Pac region under Peter, who is just doing fantastic and bringing all those properties to bear. So I think really what you'll start seeing is with some of the people movement we had and the brands that are doing so well, we are just starting to gain some momentum back and move forward. Richard, what do you think?

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

Yes, I would just add to that. Our focus on consistent execution of our Power Brands around the world is paying off. A lot of time and energy has been spent reengineering the line architecture, driving new media and marketing for momentum. And as you know, we've been spending a lot of time developing those retail relationships. And I think you're just starting to see the beginnings of what is traction on those brands.

Luke Chamberlain Hatton - *B. Riley FBR, Inc., Research Division - Associate*

Okay, great. And then following up on Asia. Just interested on hearing about how the parent engagement and the Babytree programs in China has been performing since I think you launched them in the fall? And then any details on whether you expect to roll this out to additional countries?

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

We are continuing to develop our partnerships with people like Alibaba, Fosun, Babytree and they're continuing to enable us to differentiate in the China market. The partnerships are growing and advancing. We will continue to update you as they have more updates to share. But we are really pleased with all of the progress that we are making and we are on track with our performance and our expectations of where these partnerships will go as well as working on rollouts. In particular with some of these partnerships around Asia and around the rest of the world.

Operator

Our next question comes from the line of Jamie Katz of Morningstar.

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

First, I'm curious about the brand or C rationalization process that you guys are going through in the Toy Box. I think at the end of last year you had discussed paring back a number of brands that you no longer wanted to invest in and I'm wondering whether that is completed? And how that has allowed you to change your capital allocation process behind improving the remaining Power Brands?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes, I think in regards to that, it's sort of an ongoing process. But remember, a lot of the SKU reduction isn't really sort of an elimination of the brand but might be different things within the brand. So -- but we've made great progress on it, it's something that each of the brands are very, very focused on and managing that tightly. And it makes -- and we continue to work on it. So it's something that will be -- has provided some benefit to date and will provide added benefit in the future.

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

And then do you have any sense of what Jurassic World is set to add? I think historically, it's been remit to have added something like $100 million in movie years that would help sort of fill the gap or part of the gap from the Cars 3 movie last year. Any insight you have on that would be helpful.

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

Yes, we won't share the specificity on what the expectations are for that total. But I can tell you, early reads are incredibly exciting. The merchandise that has hit has been flying off the shelves. Around the world, we have incredible excitement, not only for the product itself but obviously for the movie that comes out in June. And it is strategically part of our Toy Box narrative that will ultimately make up some of the volume from Cars. That being said, it's important to note. Cars is performing really well. We're having a great partnership with Disney. We've been working very closely to continue that momentum. We believe it's an evergreen property. And so we've been really pleased with the performance and we continue to work very closely with them to ensure that we have a good year in Cars. And we are working, as Joe was talking about the Toy Box, amazing partners. And with the depth that we have and experience that we have on great innovative items, concentrating on innovation and creativity, not necessarily SKU count. We are trying to get the best product that we can out there in the marketplace.

Operator

And our last question come from the line of Eric Handler of MKM Partners.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

Just wondering, on your American Girl turnaround efforts, how important is it to have a retail bricks and mortar presence for that business? Is it worth continuing to expand the number of retail stores? Are you better off maybe shuttering some of those stores, going to more of a digital type model and focusing more on that platform?

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

I'll start and Joe can add. I mean, when you step back, we continue to take a lot of pride in the American Girl franchise. And it's not necessarily a silver bullet answer. We're overhauling the entire omnichannel experience, which includes evaluating bricks and mortar, ensuring also that we get the best product and price value equation right. Customer relationships, whether they're online or in-store, is paramount for us to get exceptionally better at. Data management, CRM is a really important part of the future, proof of that brand particularly as it started out as a direct brand, origins of that brand was as a catalog, delivering more effective direct marketing and loyalty programs to build attachment. All of these things are really important ingredients that make up what is American Girl. We take a lot of pride in that in-store experience and making sure that the relationships our consumers have when they get there is incredibly robust and exciting. But ultimately, there's a lot of work to do on American Girl. And as we've mentioned, it's in all these different parts.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

So then do you have a long-term view as far as what would it take to get American Girl revenue stopping to decline and maybe flatten?

Joseph J. Euteneuer - *Mattel, Inc. - CFO*

Yes, I think the reality is we're kicking off this turnaround process now in these four key areas that we talked about. So the idea would be once we start getting into '19, we start making that progress, we start flattening things out and then ultimately get back to growth. We have a lot of repositioning to do, as Richard said. But there's no doubt that focusing on the direct, focusing on the experiential store experience are all key parts to making American Girl successful. I think any of us who are dads, who may be have gone through the experience at American Girl is memories we keep forever with our daughters. So we will get back to that.

Operator

And this does conclude our Q&A session today. I'd like to hand the call back over to Ms. Whitney Steininger for closing remarks.

Whitney Steininger

Thank you, operator. There will be a replay of this call 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 (404) 537-3406. The passcode is 138991. Thank you for participating in today's call and have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Have a great day.
