

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

MAT - Mattel Inc to Address Accounting Questions Related to the Conclusions of Independent Investigation - Conference Call

EVENT DATE/TIME: NOVEMBER 15, 2019 / 1:00PM GMT

OVERVIEW:

Co. provided an update on its independent investigation conclusions.



NOVEMBER 15, 2019 / 1:00PM, MAT - Mattel Inc to Address Accounting Questions Related to the Conclusions of Independent Investigation - Conference Call

CORPORATE PARTICIPANTS

David Zbojnowicz *Mattel, Inc. - Head of IR*

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

Yoon J. Hugh *Mattel, Inc. - Senior VP & Corporate Controller*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Mattel, Inc. conference call. (Operator Instructions)

I would like to hand the conference call over to your speaker today, David Zbojnowicz, Vice President, Investor Relations. Please go ahead, sir.

David Zbojnowicz - Mattel, Inc. - Head of IR

Thank you, operator, and good morning, everyone. Joining me today are Ynon Kreiz, Mattel's Chairman and Chief Executive Officer; and Yoon Hugh, Senior Vice President and Corporate Controller.

On our Q3 2019 earnings call, we said that, following the filing of our amended 2018 10-K, we would hold a separate call to address accounting questions related to the conclusions of the independent investigation into the allegations contained in the whistleblower letter referred to in our press release dated October 29, 2019.

Our amended 2018 10-K, as well as the 2019 third quarter 10-Q, were timely filed on November 12, 2019 and today's call will address accounting questions related to the investigation that have been submitted in advance of this call by our securities analysts.

We will begin today's call with Ynon providing an opening statement, followed by Yoon providing answers to the relevant questions that were submitted.

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 business. 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 describe some of these uncertainties in the Risk Factors section of our 2018 annual report on Form 10-K/A, our 2019 quarterly reports on Form 10-Q, our quarterly earnings releases and presentations accompanying our earnings calls, 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, except as required by law.

Now, I'd like to turn the call over to Ynon.

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

Thank you, Dave. As you know, in August this year, Mattel was made aware of a whistleblower letter. The letter, which had been sent to our external auditors, PwC, questioned whether there were accounting errors in historical periods and whether PwC was independent.

Mattel's Audit Committee recently completed a very comprehensive independent investigation into the allegations contained in the letter. The Audit Committee was assisted with this investigation by an independent law firm and an independent forensic accounting specialist. A summary of the Audit Committee's conclusions can be found in our October 29, 2019 press release as well as in our 2018 Form 10-K/A filed on November 12, 2019.

NOVEMBER 15, 2019 / 1:00PM, MAT - Mattel Inc to Address Accounting Questions Related to the Conclusions of Independent Investigation - Conference Call

The accounting errors identified in the investigation and corrected in the restated financial statements in the 2018 Form 10-K/A did not affect operating income or EBITDA, and had no impact on Mattel's full year financial results for 2017 or subsequent periods.

We have already begun to implement remedial measures, which include enhanced accounting and independence policies, internal controls and employee training.

As noted during the company's 2019 third quarter earnings call, we said we would host a conference call to specifically address accounting questions related to the conclusions of the Audit Committee's independent investigation. This morning, we are happy to host this Q&A conference call to address these accounting issues. We received only a few questions, so this call will be short, but we appreciate your continued interest in Mattel.

And now I would like to turn the call over to Dave and Yoon.

David Zbojnowicz - Mattel, Inc. - Head of IR

Thank you, Ynon. Given the technical nature of the accounting questions intended to be addressed on this call, Mattel solicited questions ahead of time and prepared pre-recorded answers.

As Ynon mentioned, we received very few questions, and those relating specifically to the accounting issues were related to 3 topics. Accordingly, we consolidated the questions in the following Q&A format, where Yoon Hugh, Mattel's Senior Vice President and Corporate Controller, will provide the answers.

As for the other questions received, they are addressed in our press release dated October 29, 2019, and our recent filings on November 12, 2019.

Now I would like to turn the call over to Yoon.

QUESTIONS AND ANSWERS

Yoon J. Hugh - Mattel, Inc. - Senior VP & Corporate Controller

Thanks, Dave. So let's begin with the first question, which is: can you please describe your progress in addressing the remaining material weakness identified in your filings?

The answer to this question is:

In light of the investigation's conclusions, management determined there were material weaknesses that existed at the time of the preparation of our financial statements for the third and fourth quarters of 2017.

One of those material weaknesses related to the control over the review of income tax valuation allowance analysis. This material weakness was remediated during the 3 months ended December 31, 2018, after enhancements in the design of the control were made and were operating effectively for a sufficient period of time as of December 31, 2018.

The second material weakness related to a deficiency in monitoring control activities. Management determined this material weakness still existed as of December 31, 2018. As disclosed in our latest filings, management developed and is executing a remediation plan to address this second material weakness, including the following:

As part of its Q3 2019 10-Q process, the company developed, designed, and executed more robust procedures relating to its disclosure committee controls and procedures.



NOVEMBER 15, 2019 / 1:00PM, MAT - Mattel Inc to Address Accounting Questions Related to the Conclusions of Independent Investigation - Conference Call

In addition, during the fourth quarter, the company will formalize its policy relating to the assessment, documentation, and disclosure of accounting errors, and will implement more robust procedures. Mattel is also supplementing its policy and training with respect to auditor independence.

As you would expect, we are moving rapidly to implement these enhancements. But, it's also important to note that once implemented, additional time is still needed to demonstrate the effectiveness of the remediation efforts. The material weakness cannot be considered remediated until the enhanced controls have been operating for a sufficient period of time such that management can conclude, through testing, that they are designed and operating effectively.

The second question is: why is PwC remaining Mattel's independent auditor?

The answer is:

As we disclosed in the press release issued on October 29, the Board directed the Audit Committee, which consists of independent directors, to investigate the whistleblower letter. The Audit Committee, together with independent counsel from O'Melveny & Myers LLP and forensic accountants from FTI Consulting, thoroughly investigated the letter's allegations.

The Audit Committee and PwC separately concluded after evaluating the nature and severity of the matter that PwC remains capable of exercising objective and impartial judgment on all issues with respect to pending and relevant past audits. As a result, our Audit Committee determined that PwC should continue as our independent auditor.

Also please note that PwC has replaced its lead audit engagement partner and certain other members of its audit team for its audit engagement with Mattel. The Audit Committee and Mattel's management supports this decision.

The third and final question is: what services are PwC currently providing? Does PwC conduct any non-auditing or human resource services on your behalf?

The answer is as follows:

The types of services currently provided by PwC are consistent with those described on Page 41 of our 2019 proxy statement.

PwC provides audit services consisting of its integrated audit of Mattel's annual consolidated financial statements and the audit of internal control over financial reporting, the performance of interim reviews of Mattel's quarterly unaudited financial information, as well as services related to, for example, comfort letters, consents, and statutory audits required internationally.

In addition, PwC provides audit-related services consisting primarily of the audits of employee benefit plans and compliance audits.

And finally, PwC provides tax services consisting primarily of tax compliance and preparation (including preparation of original and amended tax returns, claims for refunds, and tax payment-planning services), and other tax advice, tax consultation, and tax planning services.

To be clear, the company did not and does not engage PwC for the provision of human resource related services other than audits of employee benefit plans. As mentioned in the prior answer, the Audit Committee and PwC separately concluded, after evaluating the nature and severity of the matter, that PwC remains capable of exercising objective and impartial judgment on all issues with respect to pending and relevant past audits.

Now I will turn the call back over to Dave.

NOVEMBER 15, 2019 / 1:00PM, MAT - Mattel Inc to Address Accounting Questions Related to the Conclusions of Independent Investigation - Conference Call

David Zbojnowicz - *Mattel, Inc. - Head of IR*

Thank you, Yoon, and thank you, everyone, for joining the call today. This concludes our call. The replay of this call will be available via webcast and audio beginning at 11:00 a.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 7697786.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.