FACTSET: callstreet

corrected transcript

PARTICIPANTS

Corporate Participants

Drew Vollero – SVP-Corporate Strategy, Development & Investor Relations, Mattel, Inc.
Bryan G. Stockton – Chairman & Chief Executive Officer, Mattel, Inc.
Kevin M. Farr – Chief Financial Officer, Mattel, Inc.

Other Participants

Jaime Michelle Katz – Analyst, Morningstar Research
James L. Hardiman – Analyst, Longbow Research LLC
Felicia Hendrix – Analyst, Barclays Capital, Inc.
Michael Arlington Swartz – Analyst, SunTrust Robinson Humphrey
John G. Taylor – Analyst, Arcadia Investment Corp.
Tim A. Conder – Analyst, Wells Fargo Securities LLC
Linda Bolton-Weiser – Analyst, B. Riley Caris
Alvin Caezar Concepcion – Analyst, Citigroup Global Markets Inc. (Broker)
Michael Kelter – Analyst, Goldman Sachs & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to Mattel's First Quarter 2013 Earnings Conference Call. [Operator Instructions] Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to your host, Mr. Drew Vollero, Senior Vice President of Corporate Strategy and Investor Relations. Please go ahead.

Drew Vollero, SVP-Corporate Strategy, Development & Investor Relations

Thank you, Ellie. As you know, this morning, we reported Mattel's 2013 first quarter financial results. We've provided you with a slide presentation to help guide our discussion today. The slide presentation and the information required by Regulation G regarding non-GAAP financial measures is available on the Investors and Media section of our corporate website, corporate.mattel.com.

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

Certain statements made during the call may include forward-looking statements relating to the future performance of our overall business, brands and product lines. These statements are based on currently available information and they are subject to a number of significant risks and uncertainties which 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 2012 Annual Report on Form 10-K and our 2013 Quarterly Reports on Form 10-Q and in other filings we make with the SEC from time to time, as well as in other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.

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

Bryan G. Stockton, Chairman & Chief Executive Officer

Thank you, Drew, and good day everyone. Before we get started this morning, I want to acknowledge that the world is a small one and I'm sure across our vast stakeholder community of employees, shareholders, investment partners, retailers, vendors and friends of Mattel, that someone may have been touched in some way by the tragic events at the Boston Marathon on Monday. So on behalf of Mattel employees worldwide, I want to take a moment to send out our thoughts and prayers to those affected.

Now, let's get started. Overall, we're off to a solid start in 2013, with first quarter sales up 7%, continued gross margin expansion and strong profit and earnings per share gains. In many ways, the momentum we experienced coming out of 2012 has continued in the first quarter.

While in aggregate our results are strong, it's important to remember the toy industry transitions from the prior year holiday season into what we call the "pre" season, where first quarter sales represent about 17% of the toy business and where promotional and advertising spending is at a minimum. Retailers are making inventory adjustments which can affect shipping and POS performance. And Easter timing can vary, although Easter overall is having less impact on our business as we become more global and penetrate markets where Easter is not a significant toy industry promotion occasion.

As usual, the first quarter was full of puts and takes, but in total, ended up as a strong quarter for Mattel. Having said that, I am very happy with our financial performance in the quarter and I feel we're building on the momentum we generated at the end of 2012, to position us for a successful execution in this year's all-important holiday season.

From my perspective, it was good to see the industry grow in the quarter, despite ongoing economic challenges, currency worries in Europe, higher taxes and austerity measures that can dampen consumers' outlook, we continue to see growth. Through February, NPD data suggests that both the U.S. and Euro 5 toy industries grew in the first quarter and our sales numbers suggest solid consumer spending around the world. We believe that industry growth responds positively to innovation, as we've seen in the Fashion Doll category with Monster High.

While we remain focused on annual results, the first quarter played out pretty much as we expected and it demonstrated the power of our global portfolio of brands, countries and customers.

Our Girls Brand portfolio, which I continue to believe is the most competitive and attractive in the toy industry, boasts the top three franchises in the fashion doll aisle: #1—Barbie; #2—Monster High; and #3—Disney Princess. Our innovation in the Doll category across all of our brands is one reason why Fashion Dolls is currently one of the fastest growing toy categories of the 11 tracked by NPD through February. Sustaining its momentum from 2012, Monster High continues to exceed our expectation. The brand remains particularly strong outside the U.S., especially in Europe. This franchise is the #2 Doll property in the world, impressive given its three short years in the market.

Our Barbie franchise performed in line with our expectations in the first quarter. Barbie results were very consistent with the fourth quarter of 2012, as global sales were slightly down due to a 2 percentage point negative impact of foreign exchange. Barbie remains a very strong brand and sales continue to be higher than they were before the launch of Monster High.

American Girl continued its strong performance, delivering double-digit growth during the quarter, driven by strong performance across all doll segments and sales growth from all retail channels.

Our Entertainment portfolio remains strong with solid growth in Batman, WWE and Cars. The Cars brand remains evergreen, as sales grew in the quarter and remained higher than pre-*Cars 2* movie levels. WWE is also off to a good start, with solid double-digit increases in POS and shipments.

We initiated the franchise launch of Max Steel globally, with a 26 episode CGI animated series which premiered in March in the U.S. on Disney XD and will roll out in more than 100 territories globally. Fans are now able to view episodes online at maxsteel.com, as well as on disneyxd.com. The site has been developed as an immersive experience for kids to engage in the world of Max Steel, with exclusive games, video content, music and the latest information on toys and products. Early reads on the engagement levels for boys are encouraging. We're looking forward to the product launch which is timed to Max Steel's fall season beginning in August.

Fisher-Price Friends grew 21% in the quarter, with the majority of that increase coming from properties we now own. The newly launched Thomas wood business is on track with our early expectations and we expect larger contributions from the Thomas wood business throughout the year as we transition from the prior licensee.

Our licensed properties, including Jake and the Never Land Pirates, Octonauts and Bubble Guppies are also doing well. And we look forward to launching Mike the Knight on a global basis later in the year.

Our portfolio of countries in our International business continued to show momentum and strength. All regions grew in local currency and it was particularly encouraging to see strong results in Europe. We continue to see our investment in Russia pay off and are encouraged by double-digit growth in our emerging markets, like China and India. Additionally, we continue to successfully partner with our well-diversified global portfolio of retail customers, as their strategies for the year unfold.

At a high level, POS and shipping were generally aligned globally, particularly in the U.S. where both shipping and POS were essentially flat for the quarter. We worked with retailers to improve the quality of our inventory at retail and we were pleased to see another quarter of declining retail inventories. In the U.S., retail inventories fell mid single-digits in the quarter. Inventories in our own warehousing system are also down versus last year, as we, too, tightly manage our inventories.

To be fair and as is the case with most broad portfolios, not all of our brands met our expectations. To round out today's discussion, I want to briefly touch on Fisher-Price. As I've said many times, Fisher-Price is a brand where we see tremendous opportunity, particularly internationally. We've been executing against a twofold strategy for growth, re-invigorating Core Fisher-Price and expanding Fisher-Price Friends.

The progress in our Fisher-Price Friends portfolio is evident in two ways. First, we added many new brands and now own half of all the brands in the portfolio through the HIT acquisition. And second, our recent results continue to show that we're on track with double-digit growth for the quarter.

We believe we're also making good progress in the Core business. Although percentages can be amplified in early quarters, Fisher-Price's performance was below our expectations in the quarter. Key drivers of the decline were twofold. First, global retail execution was not as strong as we needed, as we were slow to address pockets of inventory in select markets. And second, we strategically de-emphasized low margin brand segments and products. As we move forward, retail inventories are in better shape, down single-digits in the U. S. For the remainder of the year, we need to focus on improved retailer execution, including creating programs to drive sell-through.

We continue to gain positive feedback on our repositioning of the Fisher-Price brand and we're building on our early success. We know the Joy of Learning campaign is resonating with moms. We also know our digital engagement with moms continues to expand, with 38 websites around the world and a variety of digital outlets with which moms can engage.

The second half of 2013 will be the first time these elements come together with our new packaging, which should hit the shelves in the fall and innovative products, including our extended Laugh & Learn line and our new co-branded and digital extensions for Little People and Imaginext. We know the connection to mom takes time. That said, for the second half of 2013, we have a strong pipeline of new brands and products for both Core and Friends and we are continuing to plan for global growth for Fisher-Price in 2013.

As I look beyond the first quarter, we remain excited and encouraged by the many new offerings we have for the second half of the year.

Within our Girls portfolio, we'll see Barbie continue to engage with girls around the world, with expanded content around the very successful digital series, Barbie's *Life in the Dreamhouse*. And as you heard, Barbie listed her Malibu house for sale and is conducting a worldwide search for a new home, supported by local country brand promotions and a very engaging toy line. Barbie will also have three DVD releases in 2013, one more than in 2012. In 2013, American Girl will continue to expand its retail footprint, opening stores in both Columbus, Ohio and Palo Alto, California. We will leverage our content into new digital platforms in entertainment and we'll build on the success of Saige, American Girl's first TV advertised Girl of the Year. And when it comes to Monster High, we're planning for this incredible franchise to be bigger and better in 2013 and it will continue to be supported by digital content, TV specials, DVD releases, a very innovative toy line and an expanding consumer products business.

Shifting the focus to Boys, Hot Wheels will continue to evolve a successful Team Hot Wheels theme and launch a new brand campaign, *Go For It*. We'll have new Team Hot Wheels content, new innovative products like the Hot Wheels Car Maker and new NPD category opportunities, such as Construction, that will continue to bring success to this brand in 2013, as we progress from a *Toy* brand to a *Boy* brand.

Our 2013 Entertainment portfolio will be much stronger, both in theatrical releases and television properties. We're very excited about *Planes*, the upcoming spin-off of the Pixar Cars property, which will be launched theatrically around the world this summer. And Disney is continuing to build its incredible Disney Princess franchise, with the theatrical release of *Frozen* in the fall. Warner Bros. is set to relaunch its Superman franchise, with a Christopher Nolan-produced adaptation of *Superman* that's already getting a lot of buzz. And DreamWorks Animation continues its legacy of great storytelling with its summer film, *Turbo*. And for the world of television, in addition to the popular Jake and the Never Land Pirates, Mickey Mouse Clubhouse, Minnie, WWE and Dora the Explorer, we will also have the addition of Octonauts and the launch of Disney's Sofia the First.

This well diversified portfolio of brands, countries and customers allows us to utilize our scale and infrastructure to drive outstanding financial results.

Kevin will talk about this in more detail, but our progress to improve our gross margins continued this quarter to about 54%. Our overhead for the quarter was in line with our expectations and continues to reflect the investments in strategic growth initiatives that we are making in the business.

We also continued to follow our disciplined strategy for capital deployment, which is essential to delivering top third to top quartile shareholder returns. We're well positioned to invest in our business and we've also increased our dividend 16% in 2013 and we plan to repurchase shares opportunistically.

So in conclusion, balancing the number of first quarter transitions and our solid financial results, we're pleased with our start for the year. I like to think about the first two quarters as the "pre" season leading up to "the" season and I'm confident that we're well positioned to continue our momentum throughout the rest of 2013.

I'll now turn it over to Kevin Farr, our CFO, to give you more insight into our financial performance. Kevin?

Kevin M. Farr, Chief Financial Officer

Thank you, Bryan, and good morning everyone. As Bryan mentioned, we remain focused on delivering consistent growth and strong financial performance. Our global portfolio of brands, countries and customers continue to deliver solid revenue growth in challenging times and our disciplined management of the P&L continues to deliver strong financial results.

Before reviewing the slide deck with you, I wanted to focus my comments today on the middle of the P&L. As it has for a while now, our execution in the middle of the P&L remains solid. You may recall, that in February we raised our near-term outlook for gross margins from *around* 50% to the *low-to-mid* 50% range. Consistent with that outlook for the quarter, gross margins were 54.2% of sales, 320 basis points higher than 2012. A key driver in the first quarter was positive mix.

Our first quarter revenue growth was driven by our Girls portfolio, specifically the standout performances from American Girl and Monster High. Consistent with its premium brand positioning, American Girl continues to generate a strong accretive gross margin, as does Monster High. Going forward, while we expect the momentum in our Girls portfolio to continue, the positive mix tailwind we have benefited from in the first quarter should lessen as we gain sales traction in our other brands.

For example, we'll begin to ship and pay royalties for our 2013 entertainment offerings in the second quarter, which are weighted towards content release dates in the back half of the year. And as we plan to grow Fisher-Price in 2013, we recognize that while it has good margin structure for Infant and Preschool NPD category, the margins are lower than those in our Boys and Girls portfolios.

Beyond favorable mix, we continue to see our gross margin outlook as a balance between opportunities, challenges and the unknown. We continue to see margin opportunities related to our O.E. 3.0 program. The challenge in the unknown is the risk of volatility on input costs, foreign exchange and logistic expenses, as we are still in the "pre" season and haven't started to procure materials for our peak manufacturing period.

So despite the strong start in gross margins, our outlook for the full year remains unchanged. Assuming some continued benefit from positive mix and low volatility of input costs, foreign exchange and logistic expenses, we should see gross margins within the low-to-mid 50% range this year.

In regards to the SG&A, as planned, our spending was up in the first quarter about $23 million. The growth in SG&A for the quarter was the result of three main factors.

- The first was employee-related costs, including merit increases and higher benefit expenses.
- The second driver was our continued investments in strategic growth initiatives, such as product lifecycle management and e-commerce IT infrastructure, as well as investments in American Girl stores.
- And the balance of the increase resulted from ongoing investments which started last year, but will only be incremental for a portion of 2013.

These costs should be lessened over the remainder of the year. They include the January impact of the ongoing HIT SG&A expenses since we acquired the company in February 2012, the ongoing SG&A costs for the three American Girl stores we opened last year and the SG&A expense related to our new Russian subsidiary, which we opened in spring 2012.

For the full year, we're planning SG&A spending to be higher than last year. We see that the quality of our overall SG&A spending continues to improve. Current spending levels represent a balanced approach, to enable the organization to both execute the near term and develop future business drivers for the medium term. Many of these future drivers include proven initiatives like developing new franchises, investing in emerging market infrastructure and opening additional American Girl stores.

At a high level, we see a handful of factors driving increases in overall expenses for the full year. The key cost drivers will be twofold: higher employee and benefit costs, coupled with additional strategic investments above the 2012 baseline spending. We expect the impact of these increases will be partially offset by three factors: lower incentive cost, lower HIT integration costs and O.E. 3.0 savings.

To simplify things, for the remainder of the year, we anticipate the pace of incremental SG&A spending will be about that of our first quarter run rate of $23 million, versus adjusted 2012 SG&A which excludes the $138 million litigation charge.

Overall, I'm pleased with how well we converted the strong revenue growth to earnings in the quarter. That said, there's plenty of work to be done as we execute the remainder of the year.

Now, let's turn to the slide deck. Starting on Page 4 of the slide deck, you can see that our worldwide gross sales are up 7% for the quarter, with 5% growth in the North American Region, which includes our North America Division and American Girl operations; and 9% growth in the International Region. As we exited the quarter, we saw reduced inventories for us and our key retail customers since we both tightly managed our inventories.

Turning to Page 5 of the presentation, you can see the brand perspective on sales. Worldwide sales for the Mattel Girls & Boys Brands were up 11% for the quarter. Strong growth in Monster High helped drive our Girls portfolio. Barbie sales were down slightly due to a 2 percentage point negative impact of foreign exchange. Our Entertainment properties, including Batman and WWE, also had a strong quarter. And our new Max Steel franchise launched late in the quarter and we did see growth from Latin America. Products for Max from the rest of the world will be hitting shelves in the second half of this year. We also saw solid growth with Cars, as it continues to be a great evergreen property. Worldwide sales for Fisher-Price Brands were down 7% for the quarter. The lower sales are primarily the result of declines in several of Fisher-Price Core Brands, partially offset by strong performances by Fisher-Price Friends, including the successful launch of our Thomas wood line and a strong showing for Jake and the Never Land Pirates. American Girl had a great quarter, with a 32% growth in sales. We had strong performance across all our doll segments and sales growth from all channels.

On Page 6, we highlight the performance for our North American Region. Overall, sales for the region were up 5%.

Our International business, as seen on Page 7, grew 9% this quarter with all of our regions growing in local currency. We had strong results in Asia-Pacific and are very encouraged by the double-digit growth in Europe. The Latin America Region declined low single-digits, due to a 4 percentage point unfavorable impact from foreign exchange. Economic headwinds in Brazil were partially offset by the strength in Mexico.

Now, let's review the P&L starting on Page 8 of the slide presentation. For the quarter, gross margin was 54.2%, an improvement of 320 basis points from the first quarter of last year. The favorability was primarily due to product mix, savings from O.E. 3.0 initiatives and pricing actions, partially offset by higher input costs. As I said earlier, for the full year, we are targeting margins in the low-to-mid 50% range.

As seen on Page 9, Selling, General, and Administrative expenses for the quarter increased approximately $23 million, to $370 million. As mentioned earlier, this increase is primarily attributable to employee-related costs, investments in strategic growth initiatives and incentive and equity compensation, offset by lower acquisition and integration costs for HIT. As a percentage of net sales, SG&A expense was 37.1%, down 30 basis points versus the prior year's rate of 37.4%.

Page 10 of the presentation summarizes the performance of our two-year Global Cost Leadership initiative, our work on Operational Excellence 2.0 and our continuing efforts on our ongoing Operational Excellence 3.0 program. For the quarter, we delivered incremental Operational Excellence 3.0 savings of $5 million and we are on track to deliver our full year target of around $50 million in gross savings.

Turning to Page 11, operating income in the first quarter was $65.8 million, or 6.6% of net sales, up 350 basis points compared with last year's first quarter. The increase in operating income was driven by higher sales, higher gross margins and lower SG&A as a percentage of net sales, partially offset by currency impact.

Turning to Page 12, earnings per share for the quarter was $0.11, an increase of $0.09 compared to the prior year. The increase in EPS was driven by higher operating income, partially offset by higher non-operating expenses and an increase in share count. For the full year, we expect our income tax rate would be approximately 22% to 23%, assuming no changes to current tax laws.

Slide 13 outlines the HIT integration and amortization costs Mattel incurred in 2012 and the first quarter of 2013. For the quarter, acquisition and integration expenses were $2 million compared to $16 million in the first quarter of 2012. For the full year, we expect these expenses to be about $10 million, compared to $24 million in 2012. These expenses will primarily include costs related to real estate consolidation, consulting, severance and IT. We also incurred $1 million in expenses related to the amortization of intangibles during the first quarter of 2013.

We discuss cash flow on Page 14. Cash flow used for operations in the quarter was $62 million, compared to the cash flow from operations of $171 million in the first quarter of last year. The decline is primarily due to higher working capital usage, partially offset by higher net income. Capital expenditures for the quarter were $53 million, up $15 million from last year.

On financing, we refinanced $350 million of senior notes, with $500 million of new senior notes at a lower interest rate. In addition, we repurchased 240,000 shares of stock in the first quarter at a total cost of $9 million and paid approximately $23 million to settle liabilities for fourth quarter share repurchases. In March, we paid out our quarterly dividend of $0.36 per share, at a total cost of $124 million. As a result, our cash on hand at the end of the quarter was $1.26 billion, up $475 million from the prior year first quarter.

Looking forward, we continue to have a strong balance sheet in a business that generates consistent cash flow which we will continue to deploy to enhance shareholder value.

Today, we announced our second quarter dividend of $0.36, reflecting the annualized dividend of $1.44, a 16% increase to 2012 dividend of $1.24.

We remain committed to our Capital Deployment Strategy:

- To maintain $800 million to $1 billion in year-end cash,

- To maintain a year end debt-to-total-capital ratio of about 35%,
- To invest in our business, and
- To return excess funds through dividends and share repurchases.

In 2013, we expect to end the year with cash and debt levels consistent with our framework. And as you know, effective capital deployment is critical to achieving top third to top quartile Total Shareholder Returns. We expect our capital spending and deployment in 2013 will include the increased dividend payout of $1.44 on an annual basis, which will return approximately $500 million back to shareholders; capital expenditures of $220 million to $230 million, reflecting increased investments in strategic growth initiatives; and opportunistic repurchase of shares. We continue to believe that our shares represent a great investment and for full year 2013, we expect to repurchase more shares than we did in 2012.

In summary, we're pleased with the start of the year and with our solid financial performance in the first quarter. We continue to see the financial potential of this business in:

- Our strong balance sheet,
- The momentum of our industry-leading brands, markets and customers,
- Our continuous improvement in culture,
- Our momentum on gross margin,
- The flexibility of the short-cycle business that's capital light,
- And finally, the potential for strong and consistent annual cash flow.

We will continue to look to grow our business consistently, grow it profitably, and deploy the cash generated in value-enhancing ways to reward our shareholders.

That completes my review of the financial results. Now, we'd like to open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Jaime Katz of Morningstar. Please go ahead.

<Q – Jaime Katz – Morningstar Research>: Good morning. Thanks for taking my call. I guess I have a couple of questions. First, can you talk a little bit about where you felt inventory is in the retail channel? Were there any shortages this quarter with the closer matching to point of sale?

<A – Bryan Stockton – Mattel, Inc.>: Yeah, good day, Jamie, it's Bryan. We feel pretty good about where we are retail inventory. We've been working really hard with our retail partners globally to try to reduce inventories. Now, that's something that clearly they're interested in doing. Obviously, we're interested in doing it as well, as you've seen our own inventories decline in the fourth quarter and the first quarter.

We were in a pretty good shape in terms of in-stocks across the line and frankly, very good shape on Monster High as compared to year ago, where it was a little tight. So we like that a lot. But what we've been doing is really working hard on partnering with our retailers for forecasting and really determining when product needs to get in. So we're really working hard in partnering to get better information, more actionable information, so we can all sell more product with less inventory.

<Q – Jaime Katz – Morningstar Research>: Okay. And then it looks you guys refinanced that $350 million note with a $500 million note. And I know rates are cheap, but obviously, if you just refinanced the $350 million you would be paying less in interest expense than with the $500 million. Can you go through your logic behind maybe why you didn't just replace the $350 million? Is there – did you just want more flexibility? Or are you looking towards more acquisitions?

<A – Kevin Farr – Mattel, Inc.>: I think, again, I think what we do is we target to deliver year-end cash of $800 million to $1 billion in our Capital Investment Framework and a key metric is targeting debt-to-total capital of about 35%. Our goal is to deliver single A metrics and we felt like this financing put us right where we needed to be with regard to the capital investment framework. And then we do have about $50 million more that we have maturing in November that we'll be repaying. So it's actually, when you look at the full year, our incremental financing is about $100 million. And part of the reason we did the $100 million too, is it's more efficient to finance two tenures at $250 million than two tenures at that $200 million.

<Q – Jaime Katz – Morningstar Research>: Thank you.

Operator: Our next question comes from James Hardiman of Longbow Research. Please go ahead.

<Q – James Hardiman – Longbow Research LLC>: Good morning, thanks for taking my call and congrats on another great quarter. Talk a little bit about Barbie in the context of overall Fashion Dolls? Obviously, Barbie was down 2%, sounds like that's all currency, but American Girl was up 32%, Monster High was up a ton, Disney Princess sounds like it's doing pretty good. Is there any way to quantify what Fashion Dolls did overall? I'm assuming it's up. And I guess secondly, it's pretty hard to imagine that there isn't at least some cannibalization. It seems like you guys are doing a great job of minimizing that. Can you talk about the strategy? How you guys think about really maximizing the sales of the individual brands and then also collectively?

<A – Bryan Stockton – Mattel, Inc.>: Well, good morning, James, this is Bryan. We spent a lot of time as a company thinking about our portfolio of brands, countries, and customers. And when we think about our portfolio of brands, we're very fortunate to have the #1, #2, and #3 brands of Fashion Dolls. So if you look at NPD data, it shows that the Fashion Doll category is up double-digits. It's one of the fastest-growing categories and it has been the last couple of years, again, because of a lot of the innovation that we've been bringing to Barbie and Monster High and Disney Princess.

So we spent a lot of time trying to really think about the consumer side of this, the target for each of these brands, how we can differentiate that and differentiate it not just from a marketing standpoint, but from a product standpoint as well. So it's really managing a portfolio of brands, just like someone might manage a portfolio of investments.

Now, regarding Barbie, we feel very good about Barbie results at the moment, as we did at the end of the fourth quarter. Again, in local currency, global shipments were flat and we see continued growth of Barbie POS outside the U.S., so we think that that's a good thing. And we're going to continue to invest in Barbie in the second half. As I mentioned, more DVDs and more innovative products like the Barbie Dreamhouse, with not one but two elevators this year. And the Digital Dress and the Barbie Digital Makeup Mirror. So a lot of innovation coming in the Barbie line.

So we work hard to manage each brand individually, but it's in the context of the portfolio and how we grow the overall portfolio to the benefit of all brands. And you can imagine that's important to an important partner like Disney to know that we're treating their brand exactly as if it were our own.

<Q – James Hardiman – Longbow Research LLC>: Very helpful. And just briefly here on the cost side of the P&L, O.E. 3.0, you basically offset the gross number, the $5 million number with incremental costs. How should I think about the net number for the year in the context of the $50 million gross number? And is there any help you can give us in terms of timing? Obviously, the majority of the savings seem like they're going to be over the next three quarters, but does that ramp-up through the end of the year? Any help on that front would be great.

<A – Kevin Farr – Mattel, Inc.>: Yeah, I can give you – for the full year, I think we're looking at gross savings of about $50 million. And when you look at the timing of that, it's mostly going to be back-ended in the third and fourth quarter. So I think from a flow perspective, I would plan it that way. With respect to the amount of investments we're going to make, at this point, we're not going to disclose that. But overall, we expect the investments to only partially offset that $50 million of savings.

<Q – James Hardiman – Longbow Research LLC>: Got it. Thanks, guys.

Operator: Our next question comes from Felicia Hendrix of Barclays. Please go ahead.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Hi, good morning. Can we just stick on Barbie for a second and I just want to ask the question in a different way. And Bryan, I thought you framed it really well by saying that Barbie revenues are higher now than before you started Monster High, which is impressive. But domestically, we've seen declines for the past three quarters. So I'm just wondering if you could discuss why you think that might be? And is some of these initiatives that you've talked about, will those reverse it throughout the rest of the year? Or are there other things that you're looking at?

<A – Bryan Stockton – Mattel, Inc.>: Well, I'm not going to give guidance by brand by quarter. As you know, we don't do that. But as we look at Barbie, it's a very competitive category. I believe last year, Barbie grew her total share of toys, which we think is important, because that means the total Fashion Doll category is growing and Barbie is holding her own in that.

We get a lot of questions about cannibalization and it is virtually impossible to try to come up with a formula that works, because literally Barbie sales are higher than they were in 2010, so you can't do it. The thing that I would say about the first quarter is: we're dealing with the law of small numbers and a lot of transitions and inventory shifting and things like that. So we're not reading too much into the Barbie numbers for the first quarter. As we think about the momentum, we're trying to build with the brand in the context of all the activity in that category.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay, that's helpful. And then Kevin, there just seems to be some confusion on some comments you made on SG&A. So I was hoping that you could clarify that? When you had said in your prepared remarks that you anticipate the pace of the incremental SG&A spending would be about half of the first quarter run rate of $23 million, should we basically take half of $23 million and then incrementally add that into the next few quarters of SG&A going forward? Is that how we should look at it?

<A – Kevin Farr – Mattel, Inc.>: Yeah, I think what I try to do is give you a simplified approach to think about SG&A for the full year. As we look at SG&A for the full year, we expect it to be up in absolute dollars. And the run rate that we said to use is, what we grew SG&A in absolute dollars by $23 million in the first quarter and you should use that rate as a proxy for the run rate for the remainder of the year. And you should really compare that to the adjusted 2012 SG&A, which excludes the $138 million litigation charge.

And really there's a couple of drivers of the increase which is going to be:

- We're going to make incremental investments, improvement in strategic growth initiatives like developing new franchises, investing in emerging market infrastructure, opening additional American Girl stores and executing IT infrastructure projects.
- The second driver would be annual merit increases related to employee-related costs.
- And that will be partially offset by lower incentive and equity expense, lower HIT integration costs and savings from our O.E. 3.0 initiatives.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay, helpful. And then can we just talk about FX for a second? Can you just tell us what the FX impact to EPS was in the quarter? And can you just remind us, or update us, to your sensitivity to FX, for example, a 10% change in the basket of your current fees would be X to EPS?

<A – Kevin Farr – Mattel, Inc.>: Yeah, okay. So for the quarter, there was a 1% negative impact to sales and there was a $0.02 negative impact to EPS. About $0.01 of that impact related to the devaluation of the Venezuelan currency. When you look at – a good rule of thumb for Forex for us, every 1% movement in the U.S. dollar index should impact annual EPS by $0.01 or $0.02 and impact revenues by about a 0.5 percentage point.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay, great. Thank you so much.

<A – Kevin Farr – Mattel, Inc.>: You're welcome, Felicia.

Operator: Our next question comes from Michael Swartz of SunTrust. Please go ahead.

<Q – Mike Swartz – SunTrust Robinson Humphrey>: Hey, good morning, everyone. I just wanted to follow-up on the CapEx guidance that you gave. I believe $220 million to $230 million. That looks like it's about a 15% to 20% increase since the number you gave us in February, so I'm just wondering maybe what's changed over the past eight weeks? Do you see some opportunities? Or are there areas where you're trying to shore up the business, I guess?

<A – Kevin Farr – Mattel, Inc.>: No. I don't think we've changed our guidance. Our guidance in February was $220 million to $230 million. And really we're looking at continuing to expand our retail footprint in American Girl, increase capacity of our owned and operated plants, and implement new IT platforms that are strategic. Those platforms include the American Girl e-commerce platform, as well as providing digital marketing capabilities to Mattel and completing our product lifecycle management system that's of course, your design, development, and manufacturing processes, and also some infrastructure to accelerate international growth. So the guidance has not changed since February.

<Q – Mike Swartz – SunTrust Robinson Humphrey>: Okay, thanks for that. And then second question, did you say there was any impact from the timing of the Easter this year?

<A – Bryan Stockton – Mattel, Inc.>: No. The way we think about Easter is it moves around quite a bit and you really need to look at your results through May to really figure out what the impact of Easter is. That would be the analytical comment, but I think more importantly for us, if you think about the role that Easter plays in the promotional calendar globally, the United States is really *the* country where Easter is an important toy-promotion period. Outside of the U.S., there is maybe a handful of countries where it has any impact at all. So you can imagine about half of our business doesn't really have a lot of Easter promotions in it. So as we grow our International business to our goal of 60% from 50%, Easter will become a less important part of our promotional mix in the spring. Having said that, we are happy with the support that we saw here in the U.S. for Easter and we'll have to sort through all the puts and takes as we said for the first quarter and second quarter, but we're happy with what we saw.

<Q – Mike Swartz – SunTrust Robinson Humphrey>: Great. Thanks a lot.

Operator: Our next question comes from John Taylor of Arcadia. Please go ahead.

<Q – John Taylor – Arcadia Investment Corp.>: Good morning. I got a couple of questions, if I may? The first one, Kevin, could you talk about what's going on with the prepaid and other current assets? That was up quite a bit, is that reflecting some of the investment in IT or some of the other things? Or what's behind that number?

<A – Kevin Farr – Mattel, Inc.>: It's really deferred tax assets is the major one, which I think relates to the MGA litigation.

<Q – John Taylor – Arcadia Investment Corp.>: Okay, okay. And then you're talking about gross margin going from 50%-ish to low-to-mid 50%. Can you give us a sense of how important the royalty stream from HIT and maybe from Monster High and Max Steel? How much of an impact that's having on that gross margin expansion?

<A – Kevin Farr – Mattel, Inc.>: Well, with regard to this year, I think overall, HIT's in the base, so I don't really think that's going to be a major driver. And we did see positive momentum from mix in the first quarter related to our doll portfolio: Monster High and American Girl. As we move through the year though, that should lessen because of the fact that we expect to grow our other brands and also, we have a big entertainment lineup this year, which also is royalty bearing.

<Q – John Taylor – Arcadia Investment Corp.>: Yeah. I was focused specifically on – the royalty income you guys are generating from your portfolio. Not that big a number?

<A – Kevin Farr – Mattel, Inc.>: Yeah, it's not that big a number.

<Q – John Taylor – Arcadia Investment Corp.>: Okay, okay, good. And then last thing, can you give us an update on what the timing might be of the reveal of the new secret property you've got planned for the fall?

<A – Bryan Stockton – Mattel, Inc.>: Good morning, JT.

<Q – John Taylor – Arcadia Investment Corp.>: Hi.

<A – Bryan Stockton – Mattel, Inc.>: You can look forward to seeing something from us late second quarter or early third quarter.

<Q – John Taylor – Arcadia Investment Corp.>: Okay, great. Thank you.

<A – Kevin Farr – Mattel, Inc.>: Thank you, JT.

Operator: Our next question comes from Tim Conder of Wells Fargo Securities. Please go ahead.

<Q – Tim Conder – Wells Fargo Securities LLC>: Thank you and good morning to everyone. A couple of other items here, gentlemen. Brazil, you called that out regarding some of the economic activity. Any additional color that you could offer on Brazil? And are you seeing any stabilization, or turn there here early in the second quarter?

And then, a similar comment just on more recent trends, what you're seeing from the E.U. retailers? Again, your wholesale there and it appeared also your POS was very good in the first quarter, but anything here, what you're seeing early in the second quarter, gentlemen?

<A – Bryan Stockton – Mattel, Inc.>: Good morning, Tim. Let me start first with Brazil. We've been in Brazil a long time and we've been through a lot of different experiences in Brazil. So we, I think, have a good understanding of the ebbs and flows of how we do business in Brazil. We've invested there for a number of years and we've got a great position, not just with consumers but with the retailers and also various organizations there.

As you recall, the economy really started to slow down in Brazil throughout 2012 and that caused, I think, a series of adjustments at retail. As you know, we plan well in advance of the holiday season in all countries. And frankly in Brazil, a lot of brands wound up with a little extra inventory because of the slowing there. Having said that, the country still grew in 2012. It just didn't grow quite as fast as we had hoped.

It looks like it's growing so far in 2013. We would expect it to continue to grow. But as you know, Brazil is a very challenging place to do business. And we're going to continue to invest and work with folks to make sure we get our brands there.

We're still optimistic about the future of Brazil for a couple of different reasons.

- One, we still have brand momentum there and we're going to continue to invest there.
- And number two, we still have a lot of distribution gains there. We've been there for a long time, but as the Brazilian economy grows, you see middle-class house formation outside of the major cities like São Paulo and Rio de Janeiro. That's great tailwind for growth.
- And then finally, it's also historically been a pretty large market for unbranded toys, so that gives us an opportunity to convert people from unbranded product to our branded product.

So we're still keen on the opportunities in Brazil. It's just probably going to be a little tougher to do business there short term, but we think we have the experience to get through that.

<Q – Tim Conder – Wells Fargo Securities LLC>: And Bryan...

<A – Bryan Stockton – Mattel, Inc.>: As it relates to Europe, we're very positive. I think European retailers are like a lot of retailers around the globe that they're buying what's selling. We continue to work with them, just as we do with our retailers here in the U.S., on tight inventory management and making sure that we're planning really well to make sure we've got product in time for major promotions. But they're supporting the brands that are growing, like Hot Wheels and Monster High, for example. So as we continue to prove even in difficult times, people will buy toys because they don't want to disappoint their kids.

<A – Kevin Farr – Mattel, Inc.>: Yeah and I think, Bryan, also we've got a lot of new things coming online in the second half of the year and I think that's going to be supported around the world, whether that be Brazil, Europe, or the United States.

<Q – Tim Conder – Wells Fargo Securities LLC>: Okay. And gentlemen, Bryan, maybe just to clarify, you said several brands have extra inventory in Brazil. Were you specifically talking about Mattel brands or you're talking industry? Is that an industry comment in general?

<A – Bryan Stockton – Mattel, Inc.>: The industry.

<Q – Tim Conder – Wells Fargo Securities LLC>: Okay.

<A – Bryan Stockton – Mattel, Inc.>: Including Mattel, by the way, yeah.

<Q – Tim Conder – Wells Fargo Securities LLC>: Okay, okay, okay. And then one other question, as it relates to the HIT integration. The charges or the expenses that you outlined for that in 2013, if we rewind a year ago and I know you don't know everything coming in when you close an acquisition, but are those a little bit higher, lower, or what you expected for 2013 as you saw them a year ago?

<A – Kevin Farr – Mattel, Inc.>: Yeah. I think it was as expected. I think it's more timing. We always planned on timing of a closure of facility in early 2013, which we've announced, and we're working through that as we speak. And then we always planned on also continuing to work on integration of back offices, which we are also working on.

<Q – Tim Conder – Wells Fargo Securities LLC>: Okay, great.

<A – Kevin Farr – Mattel, Inc.>: It's just taking a little bit more time.

<Q – Tim Conder – Wells Fargo Securities LLC>: Great. Thank you, gentlemen.

Operator: Our next question comes from Linda Bolton-Weiser of B. Riley. Please go ahead.

<Q – Linda Bolton-Weiser – B. Riley Caris>: Hi. I just had a couple of questions on Fisher-Price. When you talk about the performance in the quarter, you mentioned that there were some discontinuation of some Core Fisher-Price brands and maybe that was part of the sales decline. And I didn't quite understand if that's something that's going to continue. And also, if these were lower margin core brands maybe that's improving your profitability, which is, of course, a good thing. So I guess, is that phenomenon going to persist for the whole year? Or was that just a first quarter phenomenon?

And then secondly, I thought you said the Fisher-Price Core packaging would be hitting in second half, but my understanding was that it would be in the first half. So can you just clarify that? In which case, with the packaging hitting in second half, is that when you really expect the Core performance to improve?

And then thirdly, you had said you expect Fisher-Price to grow in 2013. Did you mean total Fisher-Price? Or do you mean the Core as well? Or are we going to see this phenomenon of Core down and Friends up for the year with some growth for total? But do you expect Core to be up for the year? So just those on Fisher-Price. Thanks.

<A – Bryan Stockton – Mattel, Inc.>: Well, good morning, Linda. Let me start first with the packaging. That's probably the easiest and most tactical to start with. No, we estimate that today, the new packaging is probably about 20% converted in the marketplace and frankly, it's probably less than that in International as the international markets tend to bring in new product a little bit later than the U.S. So it's out there, you can see it today. When we talk about the fall, we would expect to be much closer to 80% to 90% fully converted, by that time. So that's what we say about the new packaging, the digital communication, the advertising, and the new products—will all really be together in the fall. So as you can imagine with a line that is as broad and diverse as Fisher-Price, it takes a while for the new packaging to feather in at retail.

Secondly, as it relates to the Fisher-Price Core, we've spent a lot of time on trying to figure out how we wanted to improve, not only gross margins of the brand, but also really make sure we're getting the product line focused on the things that are true to the brand and what it means to Mom. And so we're really kind of de-emphasizing some parts of the line.

- For example, we've got a line called Grow To Pro. There's a basketball goal that goes up in height as your son or daughter grows. Now, that's something that it's a nice toy but it doesn't really support the brand positioning that well. And frankly, it was never that great a margin product for us. So that's an example of things we're de-emphasizing.
- View-Master's another interesting example, where we've always liked that business but it's kind of a small business and growing out of our core wheelhouse. And so in that example, we're actually licensing that out. So we'll be losing the revenue on that but picking up licensing income.
- So that's what we're trying to do to really focus behind things like baby gear and Infant and Preschool toys like Imaginext and Little People—really focus on what's core for the brand.

As it relates to our expectations for the year, I think we tried to be clear back in February and hopefully today, that we plan to grow Fisher-Price for 2013. Obviously, that's a global statement that we're making. We would hope to be growing in the U.S. and International. We would hope to be growing in both Core and Friends. But as you can see, we have tremendous momentum in our Friends portfolio and expect that to build. And as I said, we have some executional work to do on the Core. But when you really look at the second half of Fisher-Price with all the new properties in Friends, the new packaging, new programs, and the new innovative products for the Core business, that's what gives us confidence that we can plan for growth in 2013.

<Q – Linda Bolton-Weiser – B. Riley Caris>: Thank you. Very helpful. And can I just ask Kevin about the share repurchase? I guess I'm looking at your cash flow performance that I expect for this year and the high amount of cash you had on the balance sheet at the end of 2012. And I have expectations that you're going to repurchase quite a bit of stock this year. And interest rates are low and you've put slightly more debt on the balance sheet to be able to do that maybe. So I guess $9 million in the quarter was a bit disappointing to me. Can you explain, is that just a function of your timing of working capital needs? Or is there some particular reason why it wasn't a little more in the quarter? Or can you just highlight what your thinking is behind that?

<A – Kevin Farr – Mattel, Inc.>: Yeah. I think we've said in February, we plan to purchase more stock in 2013 than in 2012. And with regard to the year, I think we're going to invest in our business, what we've said is $220 million - $230 million CapEx. We're going to return funds to shareholders in the form of dividends—about $500 million—and we're going opportunistically repurchase our stock. We think it's a great investment, as I said and we'll continue to be opportunistic when we buy back shares.

And Linda, as you know, we typically don't discuss the timing or other parameters of our repurchases. But as we look at the year, our expectation is to purchase more in 2013 than 2012 and end the year with year end cash of $800 million to $1 billion and debt-to-total capital of about 35%.

<Q – Linda Bolton-Weiser – B. Riley Caris>: Great. Thanks, Kevin.

<A – Kevin Farr – Mattel, Inc.>: You're welcome.

Operator: Our next question comes from Greg Badishkanian of Citi. Please go ahead.

<Q – Alvin Concepcion – Citigroup Global Markets Inc. (Broker)>: Hi, good morning. This is Alvin Concepcion in for Greg. Just wondering if you could talk – provide a little bit more color on what drove the strong sales growth in Core Europe? And also, you mentioned U.S. retail inventory was down mid single-digits. How would you characterize International retail levels?

<A – Bryan Stockton – Mattel, Inc.>: Good morning. Well, in Europe, I think you're seeing, as we are in other parts of the world, good strong portfolio growth in our Girls portfolio, in our Boys portfolio with Cars, Hot Wheels, WWE, for example. Fisher-Price Friends is doing quite well, particularly with something like Octonauts in the U.K. So we're really seeing broad growth across the portfolio and we think that's a good sign for the first half and the second half.

Business seems to be good. Our shipments are up. POS is up. We're working hard, as I said, with retailers to get inventories down. And frankly, we really think it's a good way to run the toy business, which is to try to keep inventories down. As we do that, it enables us to keep product fresh and that's really important when you think about the momentum we're trying to build in the first half. And as we convert from the "pre" season to "the" season, we want to make sure we've got plenty of room on shelf for the new innovative products for the second half.

<Q – Alvin Concepcion – Citigroup Global Markets Inc. (Broker)>: Great. And then just a quick one on the entertainment side. You mentioned some excitement around *Planes*, how significant do you think it could be as a toy property? And what's the enthusiasm level of retailers?

<A – Bryan Stockton – Mattel, Inc.>: Well, I'm not going to comment on specific expectations on any property. Everybody is excited about *Planes*, because *Cars* has been such a tremendous success. The play pattern is very similar to *Cars* with *Planes*. The story is great. It really is a great way to extend the *Cars* franchise, so we're very happy with it.

Retailer support has been, I think, absolutely special. So we like where we are on *Planes* and we're looking forward to, not only a good year on *Planes*, but all of our entertainment properties throughout the second half.

<Q – Alvin Concepcion – Citigroup Global Markets Inc. (Broker)>: Great. Thanks a lot.

<A – Drew Vollero – Mattel, Inc.>: Operator, we have time for one more question.

Operator: Our final question comes from Michael Kelter of Goldman Sachs. Please go ahead.

<Q – Michael Kelter – Goldman Sachs & Co.>: Yes. First, I wanted to ask about American Girl, which is a pretty solid driver for you at this point. Could you give us some more details there? Like for example, what's online versus what's in the stores? And then for the stores, just the unit growth as you build more stores versus same-store sales growth at existing stores?

<A – Bryan Stockton – Mattel, Inc.>: Yeah. Good morning, Michael. I'm not really going to comment specifically on American Girl sales by brand or by channel. With results like we had in the first quarter, it's hard to imagine that you wouldn't have strong revenue results across varying channels and varying brands. So we like it a lot. When we think about the magic of American Girl, it really kind of goes into what I would call, two buckets.

The first bucket is our ability to really understand what's important to girls and how girls are thinking. And so this Girl of the Year franchise has really done extraordinarily well for us. As you recall, two years ago, we launched a Girl of the Year doll called Kanani; and Kanani was a terrific success, posted double-digit sales increases for 2011. We followed that Kanani with McKenna last year, who also posted double-digit gains on top of Kanani's double-digit gains. And now, this year, Saige is off to a very strong start, building on the momentum of those two dolls. So we think that our team has done a really good job of understanding how to connect with their core.

The second piece is what I would say is our very disciplined retail strategy. As you know, we meter out one store, two stores, or three stores a year. We're very disciplined about how we think about the location of the stores, how it impacts our business. I know we shared with you before that, generally, when we invest in the store location, not only do we get incremental store sales, but the specialness of the experience of that store also stimulates more revenue for us online in our consumer direct business. So we're going to remain very disciplined about how we think about that.

So when I think about what's driving American Girl, it's a disciplined store growth and really strengthening that connection that we have with consumers.

<Q – Michael Kelter – Goldman Sachs & Co.>: And then you talked about broad growth in Europe. And I was wondering, can you confirm that Europe was up, even if you exclude Monster High?

<A – Bryan Stockton – Mattel, Inc.>: Well, we have a broad portfolio, Michael. And yes, Monster High was up, but you also have to look at a whole host of brands. POS on Hot Wheels was up. WWE was up. Cars was up. So when you really look at what's going on across our portfolio, we had very strong performance across the portfolio. As in any portfolio, there's going to be a soft spot here typically, but when you look overall at Mattel results, it was strong, the margins were good. Everything is, I think, tracking for good solid momentum in Europe.

<Q – Michael Kelter – Goldman Sachs & Co.>: And then lastly, the other thing I wanted to ask, your tax rate's running, it's low for this particular quarter, but more broadly in the 20%, 21% range, which is well below typical corporate rate. Are you guys having conversations about the risk of U.S. corporate tax reform structurally changing your tax rate and lowering your earnings capacity in the future?

<A – Kevin Farr – Mattel, Inc.>: Well, again, I think with regard to the rate, we've been delivering in the low 20% for years. I think it relates to the fact that we're a global company and that half our sales are offshore and all of our manufacturing is offshore. The rules with regard to those areas that have been in place since – over 50 years. So at this point, we watch tax law changes around the world. We proactively manage our worldwide income tax effective rate. But at this point, we don't see any changes for the foreseeable future.

<Q – Michael Kelter – Goldman Sachs & Co.>: Thank you very much.

<A – Kevin Farr – Mattel, Inc.>: You're welcome.

Drew Vollero, SVP-Investor Relations

Thank you, operator. There will be a replay of this call available beginning at 11:30 a.m. Eastern Time today. The number to call for the replay is area code 404-537-3406 and the passcode is 26002733. Thank you for participating in today's call.

Operator: Ladies and gentlemen, this does conclude today's conference. You may all disconnect and have a wonderful day.