**Mattel, Inc. – Morgan Stanley Global Consumer and Retail Conference**

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Megan Clapp: All right. While Ynon is getting seated, I will read this, the disclosure. For important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales rep. So, with that, thanks, everyone, for being here. I'm Megan [Clapp]. I'm the U.S. leisure analyst here at Morgan Stanley. Really pleased to be here today with Mattel, the company's CEO, Ynon Kreiz, and CFO, Anthony DiSilvestro.

Mattel for anyone unfamiliar, global toy manufacturer, owner of several brands, just to name a few: Barbie, Hot Wheels, Fisher-Price, many more. So, Ynon, Anthony, thank you so much for being here with us today.

Ynon Kreiz: Thank you for inviting us. Good to be here.

Megan Clapp: So, I wanted to start big picture, and then we'll kind of get into the here and now. But Ynon, you've certainly made a lot of progress transforming the business. There have been some unique category challenges over the last few years. The tailwinds that you saw during COVID and maybe some challenges after that. But it does seem like from an industry perspective, we are turning the corner.

At your Investor Day and I think it was February of this year, you did update the wording in the Mattel playbook from, I think it was design-led innovation, to consumer-centric innovation. And you changed it from executional excellence to a franchise mindset. So, with that as the backdrop, can you start by discussing a little bit your vision and strategy for driving growth at Mattel and how the playbook has evolved even over the last year or two?

Ynon Kreiz: Sure. So, the story of Mattel over the last few years was about transforming the company from being a toy manufacturer that was making items into an IP company that is managing franchises. And the evolution was to grow our IP driven toy business and expand our entertainment offering. And this means that we still believe that there is significant opportunity to capture a meaningful value in the toy business. And in addition to that, capture incremental value and create shareholder value out of the IP, the incredible brands that we own, in highly accretive business verticals that are adjacent to the toy business.

In terms of our evolution, the evolution of our playbook, when we talk about consumer-centric innovation, this is about creating inside-driven, product -- driven product and experiences that are designed to capture the hearts and minds of fans globally. And when we talk about franchise mindset, it is about maximizing the reach and impact of our brands across multiple entertainment verticals and consumer touch points. So, this is about evolving our strategy.

Of course, as a company, we -- what we do really well is creating cultural relevance and infusing brand purpose into everything we do. This is in our product, in our experiences and how we manage our franchises. So, when we talk about our brands, these are not about -- this is not about simple toys that you sell in a toy aisle. This is about managing franchises holistically with the journey beginning on the toy side of our business, this is where you build the emotional relationship with our audience. And in addition to that and on top of that, with that strength continue to grow outside of the toy aisle.

Megan Clapp: Awesome. And let's start with the toy aisle first. So, you said you think the industry will return to growth. It's been -- I think we're flat maybe on an industry perspective through the third quarter. We'll see what's to come in the fourth quarter. But can you just talk a little bit about what's underpinning your expectation that this is a growth industry. It's been several years since I would consider a normal year in the toy industry. So, what does that growth look like? Is it up low single digits? How do you think about that?

Ynon Kreiz: When we say that the toy industry is a growth industry, this is because the industry has been growing in 23 out of the last 25 years. It's not high growth, but it's steady growth. The industry is resilient. It has very strong fundamentals in that it plays into a basic human behavior. It's a strategic category for retailers in that it drives food traffic. Toy shoppers traditionally spend more time and purchase a bigger basket in stores. We've seen the toy industry outpacing the decline in birth rates in terms of POS and consumer demand. And the growth that we've seen over the last few years is driven by both price and volume.

So, the industry is a healthy industry. And of course, COVID gave it further momentum. Post COVID, there was a decline in 2023. This is after the industry reached an all-time high in 2021, stayed flat, another all-time high in 2022 and then declined in 2023 and still expecting to decline in 2024, although less than we anticipated at the start of the year.

What we're seeing is that the industry is reverting back to historical purchasing patterns, more to the back -- towards the back end of the year. We're seeing the shift back into product and goods in terms of consumer demand, and more theatrical movies that drive toy demand.

So, theatrical movies are an important factor. We saw much less of that during COVID and with the strike that impacted industry growth. And now that movies are back, there's demand, there's activity -- this creates a halo effect across the industry. This is not just about action figures or the toy related, movie-related toys but rather overall demand and buoyancy in the industry overall.

Megan Clapp: That’s a great segue because I think when we were sitting here on stage last year, you talked about 2024 still looking a little light from an entertainment perspective. Now it seems like Moana 2, great opening weekend, Wicked's been a really strong box office, more to come in 2025. So, can you talk a little bit about your own position as it relates to the entertainment slate and the drivers that are still to come? And a movie like Moana 2, is that something that you were planning for as it relates to the fourth quarter? Is that something that can carry into 2025? How do you think about kind of the timing of that movie in the context of the year and as you can capture that upside?

Ynon Kreiz: Yes, we're very excited with our entertainment slate and our relationship with IP owners, third-party IP owners. Of course, we have an incredible portfolio of our own, and that's a great place to be. But we have been doing an excellent job over the last few years in positioning Mattel as a partner of choice for the major entertainment companies given our scale, our design capabilities, our global footprint, a very strong supply chain and strong capabilities overall that allow us to scale and benefit from that market position.

We do work with Wicked and Moana 2. We do the toys for those two brands, two hugely successful movies already out of the gate. And we're very excited with the momentum of those -- of the toys for those movies in the fourth quarter. And yes, we do expect benefit in 2025.

In 2025, we also have a very strong slate with Minecraft as the next movie, with Wicked 2, another movie coming in, the live action of Snow White by Disney, and of course, Jurassic World that would be a very large action movie that we're very excited by. So, we are in an excellent position as a partner of choice for the major entertainment companies. Already, we're starting to think about more Disney movies, Frozen and Toy Story down the road. This is beyond 2025. But this is part of our growth strategy. It's incremental on top of our own portfolio, but gives us the ability to leverage the scale and resources that we have as a global platform.

Megan Clapp: Great. And if I could ask maybe a more pointed question around the here and now. So, your 4Q guidance, obviously, consumer conference, 4Q, Thanksgiving to Christmas is a very important time for the toy industry. Your guidance did imply an expectation for accelerating POS throughout the holiday season. Can you spend some time talking about the drivers underpinning that expectation? And any comments you can give us on how demand trends through Black Friday have trended relative to your expectations?

Ynon Kreiz: Yes. We had a strong Black Friday. We're very encouraged by that. We do expect to grow in the fourth quarter and achieve our guidance for the full year. We are seeing momentum across our key brands. Barbie is such a strong brand. Of course, Barbie is so much more than a doll. Barbie today is a pop culture icon. The movie broadened the aperture for the brand and appeals to global audiences; men, families, adult collectors. And Barbie is celebrating this year its 65th anniversary, so, a lot of activations around that. We talked about Wicked and Moana as another part of our dolls portfolio. Monster High continues its global rollout, also in a very strong position. So, this is an important part of our offering, of course, the dolls portfolio.

We do expect Hot Wheels to continue to grow. Hot Wheels has been on an incredible run right now on track to achieve its seventh consecutive record year and continue to evolve with more product innovation and additional offering. And Fisher-Price as well expected to grow for the full year. Fisher-Price Wood is another important addition to our offering that we continue to -- as we continue to broaden and expand our infant order and preschool offering. Now Barney is also launching. So, this is another brand that we are adding to our overall portfolio.

In addition, we expect to see continued innovation, more support from retailers, expanded shelf space more -- better placement in catalogs for the holiday season and additional marketing and promotion for Mattel in terms of our own investment in supporting our product offering across the retail landscape.

Now Mattel sells products in about 500,000 stores, brick-and-mortar stores. This is not including online retail and e-commerce. So, this is an incredible global footprint and very strong relationships with retailers all over the world that we continue to partner with and collaborate and serve consumers around the world. And perhaps important to mention that as part of our transformation and journey as a company, the biggest change in our own DNA is how we think about people who buy our product.

They are more than consumers, they are fans. They are fans that have an emotional relationship with our product and experiences. And this is what we stand out as a company. We are a unicorn in terms of the portfolio that we own, the strength of the brands that we can turn into products and experiences. And the journey for Mattel has been to evolve the company and grow, take what used to be toy brands and turn them into active thriving franchises that have the opportunity to connect with fans in multiple categories outside of the toy aisle.

Megan Clapp: Great segue to my next question, which is when you think about your own IP, which you've talked about at length, but can you just give us some perspective today as to the size of that non-toy business? How much it's growing and then how investors should think about it contributing to top line growth, say, over the next three to five years?

Ynon Kreiz: As we've been accelerating our entertainment offering, the franchise management side of the business, and of course, the Barbie movie was an obvious example given the success of the film becoming Warner Bros. number one movie in 100 years for the studio. Being the number one movie of last year, and more than that really creating a control phenomenon in terms of the appeal and resonance of Barbie as a brand. And this experience speaks to the potential of Mattel films, the strength of our brands and our ability to attract and collaborate with leading talent, some of the most prolific talent in Hollywood.

But it's not just about Barbie and not just about movies. It's an entire portfolio with brands across different genres, different audience -- appealing to different demographics and touching culture in a way that very few brands are able to do. And this is an important differentiator. This is not about Mattel making movies, or Mattel making television shows. It's about creating cultural events, creating cultural events and connecting with fans at an emotional level with societal moments. It's also in television. It's about launching parks and location-based entertainment. And the next one is coming in 2025 in Glendale, Arizona, with another one targeting launch in 2026 in Kansas City.

It's about digital games. And we talked often about the success of Mattel163, which is our joint venture with NetEase, where Mattel owns 50% of that business. So, we don't consolidate it, and it's below our EBITDA line, but it's a very successful business that within just a few short years since we launched it in 2018, this business will do north of $200 million of revenue this year at very high margin with just three games. One is Uno, of course, a known game. The two other games, Phase 10 and Skip-Bo are less known, but with just three games. We built a business that will do north of $200 million of revenue and is another showcase, another example, for the potential of our brands to resonate outside of the toy aisle.

We're also looking to continue to expand how we reach fans. We recently announced a partnership with Verizon that is partnering with Barbie as part of a holiday campaign to promote their in-home Internet services. And the theme is from the Dreamhouse to the Stream-house. And the fact that Barbie is now becoming a talent, a celebrity in her own right, is very telling in terms of the potential for our brands to become cultural icons.

Megan Clapp: Great. Let's maybe pivot to gross margins, Anthony's favorite topic. I'm speaking for you. You've had really strong gross margin performance over the last couple of years. This year, I think you're expected to be up still 150 basis points, reach 50%. Freight has been a nice tailwind over the last couple of years. I think you've spoken to that -- those tailwinds moderating. You did talk about some expected inflation in the fourth quarter. So, maybe looking beyond 4Q, how should we think about the puts and takes as it relates to gross margin? Is it fair to assume that your productivity efforts and maybe some mix from your licensing can continue to offset any inflation you see in the business?

Anthony DiSilvestro: Sure. But gross margin is my second topic. EBITDA is my first. Look, we're really pleased with the progress we're making on gross margin. In 2024, we're guiding to an adjusted gross margin of 50%, which is up 250 basis points from the prior year, so significant expansion. There's a few key drivers. One is continued savings from our optimizing for profitable growth program. The second is supply chain efficiencies. And this includes fixed cost absorption as we return to more normalized production levels following 2023 when we pulled back to address our own inventory situation. We also experienced a little bit of deflation in 2024. And all these are more than offsetting the impact of the Barbie wrap, which is fairly significant.

I mean looking ahead, we continue to see opportunities to expand gross margin over the long term. And three primary drivers of that; one is the scale benefit of top line growth will be a benefit. The continued achievement of cost savings, right? We launched our optimizing for profitable growth program. It's $200 million, 70% of that coming through the COGS line. And the third, and Ynon talked about it, as we expand into these entertainment verticals, they are highly accretive, not only to the top line growth, but to our margin structure, given our capital light approach. So, we see continued runway and upside on the gross margin line.

Megan Clapp: And then maybe I'll talk about -- ask about SG&A to get to your -- the other piece to your favorite topic. So, the cost savings, the scale, those all should benefit SG&A as well. So, if we look at your SG&A today, it's around 26% of sales. It has been as low as 22% in the past. Of course, that's driven by higher sales at the time. But to my point, you have taken a lot of costs out of the business. You've reinvested some of that. I think you've been candid about that. But sitting here today, how do you view SG&A going forward? Is that a source of potential operating leverage? Or would you continue to use some of the productivity benefits to reinvest back into some talent and marketing and growth to drive growth?

Anthony DiSilvestro: Yes. We see the SG&A line as a source of operating leverage over time. Right? And I think there's a couple of reasons for that. One is top line growth, should help scale. We'll continue to drive cost savings. As I said, 30% of our optimizing for a profitable program coming through SG&A. But we'll also reinvest selectively back into the business in areas we think can drive growth, right? Things like digital games, digital marketing e-commerce capabilities. So, there are some areas we want to reinvest in. But net-net, we see the leverage opportunity ahead of us.

Megan Clapp: Okay. Awesome. And maybe to wrap this margin question up. You know, in 2022, I think it was the beginning of 2022, you talked about a goal for a 16% to 17% operating margin. The revenue has come in a little bit lighter, I think, than what you were expecting at the time. But just sitting here today, toy industry maybe returning to growth in 2025. I wanted to get your thoughts on whether you think that operating margin goal is still achievable, again, over the long run, not asking for guidance. And what level of sales -- can you pinpoint what level of sales you'd need to achieve that?

Anthony DiSilvestro: Yes. I would say that combination of gross margin and SG&A leads us to the conclusion that there is further upside in our operating margin, right? That combination of gross margin from scale, cost savings, accretive verticals. And plus SG&A from growth and cost savings, and you put that all together, right, that combination of growth, cost savings and mix, right? We see opportunity to expand operating margin going forward.

Megan Clapp: Great. And. Obviously, all of this is absent potential tariffs, which -- who knows what will happen. But I think you said on your last call, 50% of products today are manufactured in China. It could be significant depending on the size of the tariffs. Can you just talk a little bit about, toys were exempt last time. So, what sort of playbook have you been running since the last time tariffs were talked about, what are you doing today, and, I guess, how does it differ versus your experience last time?

Anthony DiSilvestro: Obviously, a very timely topic and a dynamic one. I mean, we have teams of people engaged today in analyzing and planning for different tariff scenarios. And obviously, our actions will be dependent upon what actually happens right, which seems to change from day to day and week to week. But I think if you step back, we've been executing a strategy to diversify and optimize our manufacturing footprint. And we've done this and achieved significant and sustainable cost savings. And as we've implemented that strategy today, we source product from seven different countries. And in 2025, our China sourcing is expected to be below 40%. And that compares to an industry average of 80% to 85%.

Now what that means for the U.S. right? Our exposure in the U.S. to China sourcing is therefore 20%, right, given our geographic sales mix. And as we execute this strategy further, by 2027 we don't see a single country over 25%. So, pretty good geographic sourcing mix. And with respect to North America, today we source less than 10% from Mexico, and we don't source anything from Canada. So, as we look ahead, we'll continue to leverage our very flexible supply chain capabilities to take advantage of opportunities to mitigate issues, including tariffs.

Now importantly, we also intend to protect our gross margin. And what that means is -- we've done a good job mitigating the potential exposure. But to the extent we're impacted, we would expect to raise prices to offset it. And then lastly, as we expand into these entertainment verticals, those growth opportunities will be significantly less and potentially not impacted at all by potential tariffs. So, we think we're in a good spot.

Megan Clapp: When you think about that pricing, I mean, depending on the level of tariffs, hopefully, it's not 60%, but if it is 60%, my mental math isn't great right now, but it could be a pretty sizable price increase to be able to offset all of it. Are there certain brands, certain categories, that you think you have the ability to do more of? And I think you've talked about in the past, you have a little bit of -- because you do your own manufacturing, you can I think the word is you can line architect some of the products. So, how does that kind of -- is it just pure price increase? Or is there stuff you can do on the cost side as well?

Anthony DiSilvestro: Yes. I think the pricing is the last resort. Obviously, through our diversification efforts, through our ability to flex between owned manufacturing and third-party manufacturing and the locations of those. We have a lot of flexibility. It's probably a little premature to get into specific kind of pricing actions. But we feel that we're in a really good spot and should be able to adjust and also protect our margins.

Megan Clapp: And you're obviously in a much better spot than the industry. Can you maybe if you remember, remind us why toys were exempt last time? And is that something that you're maybe speaking with the industry in terms of potentially lobbying again to have toys be exempt this time? Is that --

Anthony DiSilvestro: Yes. Well, we'll certainly do our best. They were tiers last time and they didn't get to the Tier 4, which is where toys were and we'll have to see what happens. Obviously, this is a pretty dynamic situation.

Megan Clapp: Fair enough. Maybe let's talk about your free cash flow. That's I'm sure a favorite topic for you as well. Generation has been really strong over the past couple of years, you've gotten the balance sheet into a really healthy spot. You've been very clear, I think, on your capital allocation priorities, execute M&A, return cash through buybacks. But given how healthy the balance sheet does seem, like are there certain guardrails you're thinking about today in terms of monitoring or influencing your appetite to execute on either of those priorities at this point?

Anthony DiSilvestro: Yes. I would say our near-term capital allocation priorities have not changed and are predicated on our expectation to continue to generate significant levels of free cash flow. And just to recap those priorities, the first to make it is to make investments to drive organic growth. This is things like innovation and building capabilities in areas like e-commerce or digital marketing or digital gaming. It’s making investments in capacity where we have a significant and competitive cost advantage, whether it's diecast cars or fashion dolls.

Second, we target -- and we are in this range, a leverage ratio debt to adjusted EBITDA of 2-to-2.5x and maintain our investment-grade rating. Our balance sheet is in the strongest position today, it's been in years. So, we have significant financial flexibility to support our strategy. Third, right, if we're able to identify M&A opportunities that are strategic, accretive to our growth profile, and we're confident can generate financial -- attractive financial returns, we will pursue those opportunities. Obviously, we are very disciplined in that regard. And fourth, we will use share repurchases, which are a very flexible tool to manage our capital structure. And I would say that we have just completed our 2024 repurchase program, and we've reached $400 million now year-to-date for 2024 repurchases. And since we resumed the program last year, we've now repurchased just over $600 million and would expect to continue share repurchases going forward.

Megan Clapp: Great. And maybe a follow-up on the M&A. You talked about discipline. Should we take that to mean you're still thinking about more tuck-in opportunities? Or are there any brand capabilities that you consider upping your risk tolerance for?

Ynon Kreiz: Yes, I can speak to that. The -- as Anthony said, we are being very disciplined. This is about looking at opportunities to potentially accelerate our strategy, keeping in with our capital allocation priorities. And the operating word is disciplined. We're not looking to do anything that will compromise the progress that we've achieved over the last few years. And look to whatever decision we'll make will be -- it's all about value creation, adjusted for risk and any time factor in terms of execution.

And the fact is that while M&A sits ahead of share repurchase in our capital allocation priority, we did spend $600 million since we resumed share repurchase on share buyback. Not even $1 on M&A. So, in terms of facts in the field, this is where we saw value at this point given where the share price of Mattel is relative to the intrinsic value of the company and haven't -- we haven't seen any interesting opportunities at the right value for Mattel to pursue acquisitions.

One example is in Wood, in Fisher-Price Wood, where instead of buying a company to enter that space, we actually leveraged our supply chain and partnered with a supplier that was able to become part of our supply chain and leverage our global resources and capabilities and entered this line of business without M&A. But leveraging our capabilities and resources rather than deploying capital for the opportunity. And in one fell swoop, we are an active growing player in that new white space opportunity for Mattel without any acquisition.

Megan Clapp: Great. Do you want to open it up to the room to see if anyone has any questions? None? Okay. Let's go back. I want to go back and talk about the IP and the licensing of it. So, when you sit down with your Board when you kind of think strategically, how do you think about defining success over the long term in licensing? If we look at, I think License Global puts Mattel's total retail sales at $9 billion from a licensing perspective, Disney is at the top of the list at over $60 billion. So, do you use someone like Disney as a benchmark, maybe just broad strokes, how you think about what your goals are and how you define success if we're sitting here in five years talking about your licensing business.

Ynon Kreiz: When you look around the entertainment landscape broadly, there are very few portfolios out there that can match the quality, the strength, the appeal, the cultural resonance of what we own. And this is -- when we talk about Barbie, as we said, Barbie is so much more than a toy. Barbie is a pop cultural icon. When children or families go to purchase Hot Wheels, they don't say I would like to buy a diecast car. It's about Hot Wheels. It's about American Girl, Uno, Masters of the Universe, Thomas. These are brands that matter. These are brands that have a built-in fan base. And next to Disney, we believe we own the strongest portfolio out there, in children and family entertainment.

We are at an early stage of monetizing these brands outside of the toy aisle. And the early successes that we've had should be taken as examples as case studies or showcases for the potential of what we can achieve outside of the toy aisle. At the start of the journey and you were there, you've been follow us -- you've been following us for a few years now. The question used to be whether our brands can create interest and demand outside of toys. Then the question was, well, can you guys do that? Because you've never done it before. Now the question is, can you do more of it? Can you do it at scale? And this is exactly where we are today, where we are scaling these opportunities.

We brought into Mattel world-class talent, industry leaders in their domain, in film, in television, in consumer products and merchandise, digital. And these subject matter experts brought into Mattel those capabilities and relationships. And we're now in the process of scaling these opportunities. There's already a movie -- another movie that is coming out or slated to release, Masters of the Universe on June 5, 2026, on Amazon MGM with a theatrical release. Another movie was greenlit, Matchbox with Skydance, that will be released on Apple. Big budget, high production value, top talent, pictures.

And in addition to that, there are 15 other movies that we are developing that we talked about all with top Hollywood talent, major studios and ambitious potential. And these movies are not interrelated. There -- each of these pictures have a shot on goal and the potential to become successful in and of themselves. And the important thing is that we don't need another Barbie level success for these movies to have economic impact.

A common question is how can you match the success of the Barbie movie? The answer is not every movie will be the next Barbie. But in terms of creating demand, building cultural resonance and relevance, each of these movies can make a difference. And then there's television. Live action, cinematic quality television series, live action. Digital is an important part of our strategy. We have been talking about how we're looking to get into self-publishing where we take more piece of the upside for relatively low risk, still within our capital light strategy with very limited investment, low-risk investment. You can have so much more of the potential upside in the event of success. And we know that our brands resonate.

People are interested to engage and connect with our brands in new ways. And digital is an important part of this strategy that we'll be able to talk more about as -- early in 2025. But this is another important part of our strategy to take more of a first-party position in the execution of our entertainment strategy.

Megan Clapp: Great. And maybe we could come back to, you talked about a strong Black Friday. Anything you can share on the promotional environment, how that's evolved so far relative to your expectations? Obviously, again, over the last couple of years, not a lot of inventory, a lot of inventories. There's been a lot of moving parts to maybe the depth and breadth of promotions thus far.

Ynon Kreiz: And what we can say is that in today's world, with unlimited shelf space and so much noise and competition for mind share, strong brands that have a built-in fan base, resonate and have an advantage, significant competitive advantage in the marketplace. And this is exactly where our portfolio comes into play. We do expect the toy industry to continue to grow over time. We do it, as we said, 2024 would be -- we still expect it to be a down year, but we do expect the toy industry to grow over time. We do expect to outperform the industry and gain share.

In addition to that, we do expect to continue to strengthen our entertainment offering with the examples that we talked about across multiple highly accretive business verticals that, in some cases, are bigger than the toy industry, all driven by big brands, big franchises. So, between these two opportunities, we do see potential to continue to grow and expand our business.

And I also want to go back to the comments that Anthony made. While we are looking to grow the business and see opportunities to capture value from our intellectual properties, we're also very focused on operating performance, key metrics, gross margin, profitability and continue to strengthen the company in the middle of the P&L. And ultimately, the strength of our balance sheet, the strong cash generation will continue to be a competitive advantage and be able to support and enhance our growth potential as we execute our strategy.

Megan Clapp: Great. Well, I think that's a good place to end as any. So, Ynon, Anthony, thank you for being here, and thank you, everyone, in the room for joining.

Anthony DiSilvestro: Thank you.

Ynon Kreiz: Thank you so, much. Thank you.