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MAT.OQ - Q2 2024 Mattel Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon. My name is Brianna, and I will be your conference operator today. At this time, I would like to welcome everyone to Mattel's second-quarter 2024 earnings conference call. (Operator Instructions)

I will now turn the call over to David Zbojniewicz, Head of Investor Relations. You may begin your conference.

David Zbojniewicz - Mattel Inc - Head of Investor Relations

Thank you, operator. Good afternoon, everyone. Joining me today are Ynon Kreiz, Mattel's Chairman and Chief Executive Officer; and Anthony DiSilvestro, Mattel's Chief Financial Officer.

As you know, this afternoon, we reported Mattel's second-quarter 2024 financial results. We will begin today's call with Ynon and Anthony providing commentary on our results, after which we will provide some time for questions.

To help supplement our discussion today, we have provided you with a slide presentation. Our discussion, slide presentation, and earnings release may reference non-GAAP financial measures, including adjusted gross profit and adjusted gross margin; adjusted other selling and administrative expenses; adjusted operating income or loss and adjusted operating income or loss margin; adjusted earnings per share; adjusted tax rate; earnings before interest, taxes, depreciation, and amortization or EBITDA; adjusted EBITDA; free cash flow; free cash flow; conversion; leverage ratio; net debt; and constant currency.

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

Our slide presentation can be viewed in sync with today's call when you access it through our Investors section of our corporate website, corporate.mattel.com. The information required by Regulation G regarding non-GAAP financial measures, as well as information regarding our key performance indicator is included in our earnings release and slide presentation, and both documents are also available in the Investors section of our corporate website.

The preliminary financial results included in the press release and slide presentation represent the most current information available to management. The company's actual results when disclosed in its Form 10-Q may differ from these preliminary results as a result of the completion of the company's financial closing procedures, final adjustments, completion of the review by the company's independent registered public accounting firm, and other developments that may arise between now and the disclosure of the final results.

Before we begin, I'd like to caution you that certain statements made during the call are forward-looking, including statements related to the future performance of our business, brands, categories, and product lines. Any statements we make about the future are, by their nature, uncertain.

These statements are based on currently available information and assumptions, and they're subject to a number of significant risks and uncertainties that could cause our actual results to differ from those projected in the forward-looking statements. We describe some of these uncertainties in the risk factors section of our 2023 annual report on Form 10-K, our Q1 2024 quarterly report on Form 10-Q, our earnings release and presentation and other filings we make with the SEC from time to time, as well as in other public statements.

Mattel does not update forward-looking statements and expressly disclaims any obligation to do so except as required by law.

And now I'd like to turn the call over to Ynon.

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

Thank you for joining Mattel's second-quarter 2024 earnings call. This was a good quarter for Mattel, where we achieved significant gross margin expansion and growth in adjusted EBITDA and adjusted EPS. We further strengthened our balance sheet and more than doubled free cash flow in the trailing 12-month period. We are well positioned for the second half with new product innovation and increased retail support and are reiterating our full-year guidance.

Looking at key financial metrics for the second quarter compared to the same period in the prior year, net sales declined 1% as reported and were comparable in constant currency, adjusted gross margin increased 430 basis points to 49.2%, adjusted EBITDA improved \$23 million to \$171 million, and adjusted earnings per share increased \$0.09 to \$0.19.

Gross billings declined 2% with low-single-digit declines in North America, EMEA, and LATAM, partially offset by high single digit growth in APAC. POS was comparable in the quarter and first half and positive for dolls, vehicles, building sets, and games. Mattel gained share globally in the second quarter and maintained its leadership position in dolls, vehicles, and infant, toddler, and preschool with Barbie, Hot Wheels, and Fisher-Price as number one in their respective categories, per Circana.

Free cash flow in the trailing 12-month period was \$826 million compared to \$361 million in the same period a year ago. We repurchased \$200 million of shares in the first half of 2024. In line with our capital allocation priorities, we expect to continue share repurchases in the second half of the year.

We are executing our strategy to grow Mattel's IP-driven toy business and expand our entertainment offering, and this year we are prioritizing growth in profitability, gross margin expansion, and strong cash generation.

We continue to position the company for long-term growth and expect to benefit from innovation across the toy portfolio and market share gains, meaningful progress across multiple entertainment verticals following the success of the Barbie movie, greater efficiencies and productivity improvements primarily driven by the optimizing for profitable growth program, and a strong balance sheet with financial flexibility.

On the toy side of the company, in the second quarter, dolls gross billings declined while POS was positive, vehicles was up and POS was positive, in infant, toddler, and preschool, the Fisher-Price power brand grew double digits, reflecting the early success of our new strategy, challenger categories in total grew, led by games and the success of UNO Show Em No Mercy, Mattel gained share in games in the second quarter, per Circana, and Mattel Creations, our DTC channel serving adult fans and collectors, continued to increase traffic and significantly grew its subscriber base.

We continue to make progress in capturing value of our IP outside the toy aisle. In film, we announced Masters of the Universe will be released in theaters worldwide on June 5, 2026, distributed by Amazon MGM Studios, and Monster High would be co-developed with Universal Pictures and Academy Award-winning producer and screen writer, Akiva Goldsman.

In television, Barney's World, a new animated series will debut this fall on Max and Cartoon Network, and Hot Wheels Let's Race season 2 and a new Barbie animated series will premiere this fall on Netflix.

In digital gaming, we announced a multi-year licensing agreement with video games publisher, Outright Games, and moving forward, we look to extend digital games beyond IP licensing to self-publishing of Mattel mobile games. This has the potential to significantly increase revenue and profit at low investment, and it would be complementary to our existing model.

The toy industry performed better than anticipated in the first half and was comparable to the prior year period. We expect the toy industry to decline modestly in 2024, which is an improvement from our outlook at the start of the year.

Beyond 2024, we believe trends will further improve and that the industry will return to growth and continue to grow over the long term. The fundamentals are strong, toys are an important part of consumers' lives and retailers see the category as a strategic lever.

For Mattel, we expect our toy business to grow in the second half and look forward to a good holiday season with new product innovation, increased retailer support, more marketing and promotions, and new content. Across our leader categories, we expect dolls to benefit from Barbie's 65th anniversary celebration, the launch of two new Barbie segments, two theatrical movies, Universal's Wicked and Disney's Moana 2, and new television content, vehicles will grow, driven by increased distribution, new innovative product, and more content, and infant, toddler, and preschool will benefit from the global launch of Fisher-Price Wood, increased shelf space, the relaunch of Barney, and continued momentum in Little People. We expect to outpace the industry and gain market share this year in gross sales and earnings in 2025.

In closing, this was a good second quarter and first half of the year for Mattel, where we achieved significant gross margin expansion and continued to improve profitability. We are well positioned for the second half and are reiterating our full-year guidance. We are in a strong financial position to execute our strategy to grow our IP-driven toy business and expand our entertainment offering.

And now I will turn the call over to Anthony.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Thanks, Ynon.

We achieved another quarter of increased profitability and remain on track to achieve our full-year sales and earnings guidance. Net sales of \$1,080 million declined 1% as reported and were comparable to the prior year quarter in constant currency, adjusted gross margin increased 430 basis points to 49.2%, benefiting from cost savings and cost inflation, adjusted operating income improved \$21 million to \$96 million, an increase of 29%, adjusted EPS was \$0.19 compared to \$0.10 in the prior year quarter, an increase of \$0.09, almost doubling, and adjusted EBITDA increased \$23 million to \$171 million.

Turning to gross billings in constant currency, first by category. Overall, gross billings declined 2% in the quarter. POS was comparable in the quarter and first half. Dolls gross billings declined 5% due to Barbie as we wrap early movie-related shipments in the prior year and Disney's live-action The Little Mermaid as we wrap theatrical window shipments, partly offset by growth in Monster High. Notably, POS was positive and increased low

single digits, benefiting from Monster High, Disney Princess and Frozen. Barbie gross billings declined 5%, while POS was flat. Mattel outperformed the industry and gained share in the dolls category in the second quarter and first half, per Circana.

Vehicles grew 2%, in line with POS. Growth was primarily driven by Hot Wheels, which increased 5%, benefiting from die-cast cars and RC, partly offset by a decline in licensed entertainment properties. Infant, toddler, and preschool declined 3% due to baby gear and power wheels, as we strategically exit or out-license those segments in line with our stated strategy, and preschool entertainment, partly offset by Fisher-Price. Fisher-Price power brand grew 11% driven by gains in newborn, Little People, and the launch of the Fisher-Price Wood line. Fisher-Price POS was down low-single digits in the quarter and flat in the first half. Mattel outperformed the industry and gained share in the infant, toddler, and preschool category in the second quarter and first half, per Circana. Challenger categories, in aggregate, increased 1%, driven by double-digit growth in games, partly offset by declines in action figures.

Looking at second-quarter performance by region. Gross billings were negatively impacted by a temporary shortage in shipping container availability to our direct import customers. We estimate this timing impact was approximately 2 percentage points in the quarter.

North America declined 3%. POS was comparable in the quarter. EMEA declined 2%, in line with POS. Latin America declined 1% with POS declining low-single digits. Asia Pacific increased 7%, in line with POS, driven by Australia and China. Mattel maintained share in North America and gained share in EMEA in the second quarter and first half, per Circana.

Retail inventory movements were generally in line with historical patterns. We entered and ended the quarter with retail inventories down high-single digits compared to the prior year and believe we are well-positioned as we head into the second half.

Adjusted gross margin increased 430 basis points to 49.2%. The improvement was driven by several factors. The optimizing for profitable growth program added 120 basis points as we continue to generate cost savings, cost deflation, primarily driven by lower ocean freight, contributed 110 basis points, lower sales adjustments added 60 basis points, lower inventory management costs, primarily obsolescence and close-outs, added 40 basis points, and other factors added 100 basis points.

Moving down the P&L, advertising expense was \$74 million compared to \$90 million in the prior year quarter, a decline of \$16 million. The reduction was primarily timing related as we are shifting support to the second half. Adjusted SG&A increased \$37 million to \$361 million. The increase was primarily driven by market-related pay increases, upgrading information technology systems, and hiring talent to accelerate our entertainment strategy. For the full year 2024, we continue to expect advertising and adjusted SG&A to be comparable as a percent of net sales.

Adjusted operating income was \$96 million compared to \$75 million a year ago, an increase of \$21 million or 29%. The increase was primarily driven by gross margin expansion and lower advertising, partly offset by higher SG&A. Adjusted EBITDA, reflecting similar factors, increased by \$23 million or 15% to \$171 million.

Adjusted EPS was \$0.19 compared to \$0.10 a year ago, an increase of \$0.09 and, in addition to operating income growth, benefited from a lower adjusted tax rate, higher interest income, and a lower share count, reflecting our share repurchase activity. Cash used for operations in the first six months was \$217 million compared to \$326 million in the prior year period. The improvement of \$108 million was primarily driven by higher net income.

Capital expenditures over the same period were \$65 million compared to \$73 million. Free cash flow was a use of \$283 million compared to a use of \$399 million, an improvement of \$116 million. On a trailing 12 month basis, we generated significant free cash flow of \$826 million compared to \$361 million, an increase of \$465 million. This strong improvement was primarily driven by working capital performance and gain in net income.

Consistent with our capital allocation priorities, we utilized a portion of free cash flow to repurchase shares. During the first half of 2024, we repurchased \$200 million under our new \$1 billion authorization, and during the trailing 12 month period, we have now repurchased over \$350 million of shares.

Our balance sheet and financial position continue to improve. We finished the quarter with a cash balance of \$722 million compared to \$300 million a year ago, an increase of \$422 million. The increase reflects the free cash flow generated over the past 12 months, partially offset by the use of cash to repurchase shares.

Accounts receivables were \$839 million compared to \$891 million, a decline of \$51 million, driven primarily by a reduction in days sales outstanding. Inventory levels remain significantly below the prior year as we continued to successfully reduce our inventory levels. We ended the quarter at \$777 million, down \$195 million. Our inventory is of high quality and we are well positioned for the second half of the year.

Debt of \$2.3 billion is comparable to last year with no scheduled maturities until 2026. Our leverage ratio continued to improve. Total debt to adjusted EBITDA, which excludes our cash balance of \$722 million, finished the quarter at 2.3 times, compared to 3.1 times. The improvement was driven by the increase in our trailing 12 month adjusted EBITDA.

With the benefit of our improved financial position and investment grade ratings, we recently executed a new five-year \$1.4 billion revolving credit facility. The new facility provides additional financial flexibility to execute our strategy. We continue to achieve significant cost savings. Under the optimizing for profitable growth program, we achieved \$20 million of savings in the quarter with \$12 million benefiting cost of goods sold and \$8 million in SG&A. Cost savings in the first half were \$37 million, and we are on track to achieve or exceed targeted savings of \$60 million in 2024, towards total program savings of \$200 million by 2026. We are reiterating our guidance for 2024, including net sales in constant currency to be comparable to the prior year, adjusted gross margin to be in the range of 48.5% to 49% compared to 47.5% in 2023, adjusted EBITDA to be in the range of \$975 million to \$1,025 million compared to \$948 million in the prior year, adjusted EPS to grow double digits to a range of \$1.35 to \$1.45 compared to \$1.23 in 2023, and approximately \$500 million in free cash flow.

We expect to outpace the industry and gain global market share. The guidance considers what the company is aware of today, but remains subject to further market volatility, any unexpected disruption and other macro-economic risks and uncertainties.

As we've discussed, our 2024 plan prioritizes growth in profitability, gross margin expansion, and strong cash generation to position Mattel for long-term growth. With our first-half performance, we are well positioned to execute our strategy and expect to achieve our full-year guidance for 2024. Beyond this year, we expect to grow both top and bottom line in 2025. We have a strong balance sheet and expect to continue share repurchases, in line with our capital allocation priorities. We are confident in our strategy and our ability to create long-term shareholder value.

And now I will turn it over the operator.

QUESTIONS AND ANSWERS

Operator

Thank you. I will now turn the call over to Dave.

David Zbojniewicz - Mattel Inc - Head of Investor Relations

Before we begin the Q&A, I would like to state that per our company policy, we will not be commenting on recent press reports or speculation. We are very confident in Matell's strategy and our ability to create long-term shareholder value as a standalone company. And with that, we are happy to answer your questions.

Operator, back to you.

Operator

(Operator Instructions) Stephen Laszczyk, Goldman Sachs.

Stephen Laszczyk - *Goldman Sachs & Company, Inc. - Analyst*

Hey, great. Thanks for taking the questions. Maybe first for Ynon, and a high-level one on the consumer. Could you maybe give us an update on what you're hearing from your retail partners on the health of the consumer as we head into the back half of the year? I think we've seen some data points that maybe point to some of the consumer complex slowing. I'd be curious what you're hearing, and then more importantly, what you're seeing that gives you confidence in reiterating the guide?

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Yes, sure, Stephen. First, the toy industry performed better than anticipated in the first half and was comparable to the prior year. We do expect the industry to decline modestly in 2024. But this is an improvement from our outlook at the start of the year. Beyond '24, we believe the trends will further improve and that the industry will return to growth and continue to grow over the long term.

What we're saying is that the fundamentals of the toy business are strong. Toys are an important part of consumers' lives and retailers see the category as a strategic lever. We do expect adult collectible items and product to drive demand. And this bodes well for our strategy in this area.

We do expect our toy business to grow in the second half and look forward to a good holiday season for Mattel with new product innovation and increased retailer support, more marketing and promotion, and new content.

Stephen Laszczyk - *Goldman Sachs & Company, Inc. - Analyst*

Great. Thanks for that. And then maybe one for Anthony on freight. You called out some of the volatility that's returned to the freight market. I think we've also seen some shipping rates tick up a good bit versus what we've seen historically.

Could you maybe talk about your freight position at the moment and to the extent to which some of these pricing dynamics could impact financials into the second part of the year? Thank you.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Sure, Stephen. What I'll say is. I mean, we certainly continue to monitor the situation in the Red Sea, and we have accounted for the anticipated impacts in our guidance. For Mattel, we feel that we're well positioned with our supply chain capabilities, the relationship we have with carriers and the fact that we contract for most of our ocean freight on fixed rates. So we did see a little bit of volatility in the quarter around DI shipments, but we've seen that situation improve since beginning in the quarter. So we think we're in a good spot and have reiterated our guidance.

Operator

Chris Horvers, JPMorgan.

Christian Carlino - *J.P. Morgan Securities LLC - Analyst*

Hi. Good Evening. Christian Carlino on for Chris. Appreciate the color on some of the power brands in the guide. But how should we think about the other, call it, 40% of gross billings, just given the restatements to last year's numbers. And could you quantify how much the sell-in ahead of the Barbie movie benefited 2Q of last year?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Can you repeat the first part of the question.

Christian Carlino - *J.P. Morgan Securities LLC - Analyst*

Yeah, you had given us some more color on how you're thinking about Barbie and Hot Wheels and Fisher-Price in context of the guide but the other bucket, which is about 40% of your gross billings, how should we think about that portion?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yeah. So I think you're referring to our challenger categories, which include action figures, building sets, games and other. And we saw significant growth in games led by UNO and the success of Show Em No Mercy, On building sets, we continue to scale the Pokémon business, which is doing well. And there's a slight offset on action figures. It's primarily Jurassic World as we comp the movie from two years ago and certainly very excited for that tie-in to come back in 2025.

Christian Carlino - *J.P. Morgan Securities LLC - Analyst*

And could you quantify how much the Barbie movie benefited the second quarter last year and sell-in ahead of the movie?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Yeah, not specifically, but we are down on Barbie, but the primary driver of that decline in Q2 is the wrap of the early movie sell-in from last year.

Christian Carlino - *J.P. Morgan Securities LLC - Analyst*

Got it. That's helpful. And then

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

One way to think about it is that the POS for Barbie is flat.

Christian Carlino - *J.P. Morgan Securities LLC - Analyst*

Got it. Thank you. And what drove the other 100 basis points of gross margin expansion? Is that -- are you starting to recapture some of the fixed cost absorption as you ramp up production levels? Or is there something else in there that's driving that?

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

No. That is the key point. As we -- last year, we curtailed production to address our owned inventory situation. We're back to normal production levels. And with that comes some pretty significant efficiencies running through our supply chain. And that fixed cost absorption is one of those.

Operator

Megan Alexander, Morgan Stanley.

Megan Alexander - Morgan Stanley & Co. LLC - Analyst

Hi. Thanks very much. I wanted to come back to the comment that you expect the toy industry to decline modestly, and that's an improvement from the outlook. It might be just a function of the size of the improvement, but you didn't change your guidance. So is there something else perhaps offsetting that? And then just related to that, you did say you expect your business to be up in the second half. Is that a POS comment or shipments comment? And is that a new expectation relative to last quarter as well?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yes. So I'll start with the second part of the question. So if you look at our guidance, which we reiterated, it does imply from a revenues perspective that on an aggregate basis, we'll be flat to slightly up. But when you decompose that, right, on the positive side, we expect to grow our toy business as Ynon said in the second half. All right, and look forward to a good holiday season.

And then going the other way, we're up against the Barbie movie comp in the second half of this year, two-thirds of that occurring in the third quarter. So those are the pluses and minuses inside of the implied revenue for the back half.

Megan Alexander - Morgan Stanley & Co. LLC - Analyst

Okay. It sounds like nothing really changed there. I guess, maybe any comment on whether there's something changing, given you did take up your expectation for the industry broadly?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah. I think, the context of the industry, as Ynon said, it's performing better than we expected. A lot of that is building sets and adult fans and collectors, right, so when you look at our categories, the situation is pretty much unchanged and we've got two-thirds of annual revenue still ahead of us.

Megan Alexander - Morgan Stanley & Co. LLC - Analyst

Okay. Helpful. And maybe just to follow up on the direct import dynamics, the shipping container availability, I know you said it, mostly worked itself out, but just how should we think about maybe the complexion of 3Q versus 4Q in the context of that, are you seeing a willingness for retailers to perhaps pull forward orders again? And then maybe broadly, does that impact more one region more than another? Was that a across the board comment?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

It's really hard to parse that between the quarters. We are very focused on working with our retailers, planning for a good holiday season, so we think, and we've talked about this before, shipping patterns and consumption patterns really following more the historical norms and difficult to again split between the quarter. But with respect to the DI issue and the impact on Q2, we have seen that situation improve since the end of the quarter.

Operator

Eric Handler, Roth Capital.

Eric Handler - Roth MKM - Analyst

Good afternoon. Thanks for the question. I guess just more for Anthony. Anthony, the gross margin improvement that we've seen in the first half of the year is pretty substantial on a year-over-year basis. Usually, the gross margin in the back half of the year is better than the gross margin in the first half of the year, but when you look at your guidance for gross margin, 48.5% to 49%, you're not -- it doesn't look like you're expecting any meaningful gross margin improvement sequentially or definitely not year over year. Are there any particular headwinds impacting gross margin in the back half of this year?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah. So I mean, obviously, we've been able to achieve on a first half some significant gross margin improvements. And on an adjusted basis, we're up 430 basis points in Q2, we're up 600 basis points in the first half. And the primary drivers of that being our optimizing for profitable growth program and cost inflation.

We just reiterated our guidance, right, which is to be up 100 to 150 basis points on a full year. Now that implies that the second half will be down slightly, and there's a couple of puts and takes, right. We're going to wrap the Barbie movie impact, which we've talked about. We expect to see some cost inflation. That will be partly offset by continued cost savings. But that said, we are tracking well on gross margin, but with two-thirds of annual revenues still ahead of us, we believe it's too early to make any changes to our annual guidance at this time, but we feel really good about the progress that we've made.

Eric Handler - Roth MKM - Analyst

Great. Thanks.

And Ynon, I'm wondering if you could talk a little bit about your comment that you're looking to self-publish some mobile games. Do you have any infrastructure to develop mobile games internally? Or is that something you'd go -- you'd have to go out and buy?

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

Yeah, the comment relates to our strategy to capture full value from our portfolio and what is interesting is that in mobile games, there is asymmetric risk-return profile for IP owners, whereby you can develop the games at a relatively low cost, single-digit million between, call it, \$5 million to \$8 million to up to \$10 million per game, but you don't need to develop it yourself. It's easy to access our development capabilities in the marketplace.

The expensive part of that business is user acquisition, and this is where owning strong brands really help to raise awareness and reduce dramatically the investment required otherwise in user acquisition. And we believe given the appeal and strength of our brands, we're in a great position to capture that value.

The other thing is that when you develop those games, you can stage gate the investment and only continue to spend money as you see that the games are progressing well. The marketing costs are also performance based where you get the results on the day, so you can decide if you continue to invest or not. And the return can be, as I said, asymmetric relative to the investment. And we intend to do that. We have the capabilities in-house. We hired, this is just a few people, you don't need to develop a full studio setup or infrastructure, and with very limited capabilities you can be in a position where you capture significant upside from mobile game publishing.

Operator

Linda Bolton Weiser, D.A. Davidson.

Linda Weiser - *D.A. Davidson & Co. - Analyst*

Yes, hi. I was just curious, Ynon, if you had any thoughts on -- there's become a big disparity in the stock valuation between Mattel and Hasbro. I think it's the biggest gap I've seen in valuation in the years that I've been following the stocks, and yet you have executed arguably better than Hasbro in recent quarters. Can you -- do you have any thoughts on the valuation disparity? And is there any action you can take, do you think to close that gap and create more shareholder value?

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

Well, thanks, Linda. You followed us closely for a few years now, so you know the numbers really well. We absolutely agree that the stock is undervalued and the stock price does not reflect the success we have had, and importantly, the future potential of the company. And just to remind everyone some key metrics since the turnaround started in 2018, we grew our top line by more than \$0.5 billion, we grew our adjusted gross margin by almost 1,000 basis points, we grew our EBITDA -- adjusted EBITDA by 7.5 times, and free cash flow went from a negative \$325 million to a positive \$700 million, and of course, we're now investment grade.

And beyond the financial metrics, if you look at progress across the enterprise, our brands are in a great position and thriving, we are gaining share in the toy business, and last year was the highest share gain we've ever achieved in the US in our history. We are winning major licenses, we're having great momentum in our entertainment strategy. Of course, the Barbie movie is a great showcase for that. This is one example, but it's not just about Barbie and not just about movies, and there is so much more in the works. So we feel that we are very well positioned to build on this multi-year trajectory and continue to execute our strategy and expect the share price to reflect this over time.

Linda Weiser - *D.A. Davidson & Co. - Analyst*

Thanks. And then I have a question on your selling and admin expenses. They were up in dollars, I think, about 11% or 12% year over year in the quarter. And you mentioned higher compensation, hiring IT, that kind of thing, but the expenses were up only 2% year over year in the first quarter. So I'm just kind of wondering about some of the timing of things and is there something in comparisons that will make that amount be down in dollars in the second half? Thanks.

Anthony DiSilvestro - *Mattel Inc - Chief Financial Officer*

Sure, I can take that up, Linda. I mean, as we said, in the second quarter, SG&A increased \$37 million, and that was in line with our expectations. And there's a couple of drivers. It was primarily driven by market-related pay increases, investments to upgrade certain IT systems, and as Ynon mentioned, we are hiring talent to accelerate our entertainment strategy. Now on a full-year basis, we expect SG&A to be comparable as a percent of sales. And what that implies for the second half is for SG&A to be down, and that's primarily related to incentive compensation. So a bit of timing going on, but still on track in terms of the full-year expectations.

Linda Weiser - *D.A. Davidson & Co. - Analyst*

Okay, thanks. That's helpful. And then -- go ahead.

Ynon Kreiz - *Mattel Inc - Chairman of the Board, Chief Executive Officer*

And then just to make a comment and going back a little bit to my earlier point on the mobile game development that this doesn't change our capital-light approach. This is still within what we call capital-light. We are not looking to build a large infrastructure or investing significant capital behind these activities. These are still areas that we believe are within -- well within our SG&A envelope, and we intend to continue to be efficient in capital deployment and stay very focused on capturing the right value for these investments.

Linda Weiser - D.A. Davidson & Co. - Analyst

Okay. And then one final thing I was wondering. Can you remind us all -- I guess we're all thinking about the election coming up and can you remind us how the toy industry avoided tariffs in the first Trump administration? I can't quite recall why that was. And then how you would expect to manage through if there were some incremental tariffs imposed on the industry?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah, I would say, Linda, that without going back to the historical issues but looking ahead, we are always monitoring for potential government policy or regulatory changes that could impact the business. We certainly take a holistic view regarding our manufacturing footprint and really have designed an organization that gives us flexibility and mobility to leverage our manufacturing opportunities across the world. And as we look back over the last few years, and we have managed very, very well and demonstrated good agility in terms of our supply chain, and look, we'll continue to do that. Our job really is to design an organization that's flexible and can respond to exogenous factors, including tariffs.

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

And the one comment I would add is that we have a much more diverse manufacturing footprint than we've had a few years ago, and that gives us more flexibility to respond to changes in both directions, by the way. There could be also opportunities, not just threats, opportunities to reduce our cost further and improve output.

Operator

Arpine Kocharyan, UBS.

Arpine Kocharyan - UBS Securities LLC - Analyst

Hi. Thanks for taking my question. Most of my questions are answered. Just two quick ones. Could you give an updated view on consumer product licensing business, kind of post Barbie movie here? How many licensing partners you're looking at today? And how we should think about year-over-year comps as we get into the back half as it relates to your ability to offset tougher comps from Barbie? And then I have a quick follow-up.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yes, sure. On the CP side, obviously, we're going to be down a little bit year on year because of the Barbie movie wrap. But we're going back to last year, the movie really was a catalyst. We entered more than 165 consumer product collaborations. And if you look at the business today, putting the Barbie movie aside, the business continues to grow and the movie really was the catalyst. We continue to invest in that area and it's a critical component of monetizing our IP in these entertainment verticals.

Arpine Kocharyan - UBS Securities LLC - Analyst

Okay, thank you. And just a quick housekeeping question. It seems like your tax rate guidance for the year didn't change, but Q2 effective tax rate was significantly below that range of around 17%. Does that mean that back half tax rate is higher than that rate? How should we think about that math? Thanks.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Sure. Arpine, as you pointed out, the adjusted tax rate in Q2 was 17% compared to 34% last year. And what happens in the first half because there's seasonal small quarters, the impact of favorable discrete items has an outsized impact on the rate. As we get into the second half, this will kind of normalize out and we continue to expect our full year tax rate to be in that 23% to 24% range. So no changes there on a full-year basis.

Operator

Alexander Perry, Bank of America.

Alexander Perry - BofA Global Research - Analyst

Hi. Thanks for taking my questions here. I just first wanted to talk about wholesale a little bit. You mentioned increased retailer support a few times. Would that be -- maybe just give us some color on what you're referring to there and how you're working with your key retailers and what would be incremental versus last year in terms of retailer support? Thank you.

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

Yeah, this goes back to how we operate and the relationship -- the strong relationship we have with retail partners. We do expect more shelf space in the second half. This is -- without being specific about which retailer it is, this is one of our core strengths where we work with retailers around the world selling product today in 500,000 stores globally. And this is just -- this is brick and mortar, of course.

We have a large business in online retail and e-commerce. And with those relationships we are able to continue to expand our retail footprint and that is what we are talking about. More shelf space in the second half and part of that, in addition to that, is more promotion, more marketing, and more activities to drive the business.

Alexander Perry - BofA Global Research - Analyst

Perfect. Really helpful. And then just following up on your commentary on the second half, can you give us some more color on how you would expect POS to trend in 3Q and 4Q. Any comp dynamics we should be thinking about in terms of content as we're thinking about the POS and sell-through versus sell-in? Thanks.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah. I think it's pretty much steady as she goes, right? I mean, POS was comparable in the first half and our full-year guidance does imply POS to be comparable on a full-year basis, and therefore, in the second half as well. But as Ynon said, we do expect the toy side of the business to grow in the second half, to be offset by the Barbie movie wrap, and for us to continue to outpace the industry and to gain market share as we did in Q2 and the first half.

Operator

Kylie Cochu, Jefferies.

Kylie Cochu - Jefferies LLC - Analyst

Hey. Good afternoon and thank you for taking my question. I was just wondering just broader themes about what's resonating well with the customers right now. Is it newness? Is it value? Anything that you can kind of give kind of on the category details would be helpful.

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

Sorry, Kylie, it's really hard to hear you. There's some disruption on the line.

Kylie Cohu - Jefferies LLC - Analyst

I'm sorry. Can you hear me better now or not really?

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

Slightly better, actually. Yeah.

Kylie Cohu - Jefferies LLC - Analyst

Okay, perfect. So sorry about that. I moved my location here. No, I was just kind of wondering -- I mean, obviously, the category details that you guys provide is super helpful, but I was wondering if just more broad strokes, like any current themes? Is the newness resonating really well? Is it value? Is it more broad strokes? Just anything to kind of comment there would be helpful.

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

As we said in our prepared remarks, we had a good first half and we expect our toy business to grow in the second half. And this is driven by new product innovation, increased retail support that we mentioned in terms of more shelf space, more marketing and promotion, and new content, part of our franchise management strategy. And this goes back to our core competence on the toy side of the company in terms of design and development capability where we are bringing out the best creativity and innovation, that we invest in product, supply chain that is a competitive advantage for Mattel, being able to produce a product at the highest quality at the most competitive price, and the commercial execution that we talked about earlier and bringing all of this together. We believe that our toy business is healthy, is very well-coordinated and managed, and we continue to gain share and strengthen our relationship with retailers. And this is important because as part of our strategy, when we are very focused on growing our entertainment business, this is not instead of what we do on the toy side of the company. It's toys and entertainment. And those relationships are symbiotic within category and within business across the board. So we do expect the toy business to grow in the second half, we do expect a good holiday season, and believe that we will continue to gain share this year and grow sales and earnings next year.

Kylie Cohu - Jefferies LLC - Analyst

Got it. That's super helpful color on just again more of those drivers there. Thank you. Obviously, your inventory levels are looking very healthy. And that's probably one reason why we're seeing a lot of -- you've been able to expand gross margin, but just kind of wondering how are inventory levels trending across the industry and specifically kind of with your retail partners that you're in communication with?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yes. So commenting on Mattel, I mean, our retailers, the inventory levels, we think we're in a very good position. We work very closely with our retail partners to make sure we get the right level of inventory to satisfy consumer demand as we enter the back half and the holiday season. In the quarter, retailer inventory levels have followed historical patterns and we ended Q2 down high-single digits in terms of levels.

And then with respect to our owned inventory levels, we're down almost \$200 million versus the prior year. We've had good success in reducing owned inventory levels and importantly, those inventory levels are high quality and also well positioned heading into the second half of the year. So in a good spot with respect to both retailer and owned inventory levels.

Operator

Fred Wightman, Wolfe Research.

Fred Wightman - Wolfe Research, LLC - Analyst

Hey, guys. I just wanted to touch on Fisher-Price. That was up double digits in the quarter and you also alluded to some early signs of success from the strategy and reorganization there. Can you talk about where you're seeing traction and maybe how to think about that, given what looks like tougher comparisons in the back half of the year?

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

Yeah. Thanks, Fred. The Fisher-Price is such an incredible brand. And in fact, it will be celebrating its 94th anniversary this year. The brand did grow 11% in the second quarter. We saw this driven by newborn, Little People, and the launch of the new Wood line, which is exactly what we talked about at the investor presentation. We, in the second half, we expect Fisher-Price to expand the core line, launch the Wood segment globally, and add new franchises to Little People collector.

The Fisher-Price is expected to grow this year and we are very confident in the long-term growth potential of this brand. And this is part of our overall strategy for the category where we continue to outperform the industry where -- and gaining more share, both in the second quarter and the first half. So still early, but good to see that the new strategy is paying off and put the Fisher-Price, and the category on a good path.

Fred Wightman - Wolfe Research, LLC - Analyst

Makes sense. And then, on cost saves, it looks like there was a little bit of a tweak to the language there. Now you're talking about meeting or exceeding that \$60 million target for the year. Is that just run-rating the \$37 million that you've seen year to date or is there something else that's going into that tweak?

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

No, we feel really good about the optimizing for profitable growth program. As we've said in the past, we announced earlier this year targeting \$200 million of savings by 2026, and we're off to a really good start, right? We did \$20 million of savings in Q2 and \$37 million for the half. So we're tracking ahead of our \$60 million 2024 expectation on a run-rate basis, and we see the potential for us to exceed that \$60 million in 2024, so off to a good start.

Operator

Jim Chartier, Monness, Crespi, Hardt.

Jim Chartier - Monness, Crespi, Hardt & Co., Inc. - Analyst

Thanks for taking my question. I think kind of entering the year, you expected a benefit from lapping some inventory destocking in retail last year and the first half of the year and yet POS outpaced billings by a couple of percent in the first half. Is that just due to the direct import shift or has something else changed? Thanks.

Anthony DiSilvestro - Mattel Inc - Chief Financial Officer

Yeah, that's primarily the direct import shift. And with respect to retail inventory, last year, we made significant progress getting those down. We saw a little bit more in the first quarter this year. So we feel we are in a very good position and we still anticipate some tailwind from that differential but just didn't see it in the first half.

Ynon Kreiz - Mattel Inc - Chairman of the Board, Chief Executive Officer

Thank you. Thank you, Jim, for the question. And thank you, operator, and thank you, everyone, for your questions.

In conclusion, this was a good second quarter for and first half for Mattel with significant gross margin expansion and improved profitability. As we said on the call, we are well positioned for the second half of 2024 and look forward to a good holiday season. We expect to outpace the industry, continue to gain more share this year, and grow sales and earnings in 2025.

We are successfully executing our strategy to grow our IP toy business -- IP-driven toy business and expand our entertainment offering. And now I will turn the call back over to Dave.

David Zbojnowicz - Mattel Inc - Head of Investor Relations

Thanks, Ynon, and thank you, everyone, for joining the call today. The replay of this call will be available via webcast beginning at 8:30 PM Eastern time today. The webcast link can be found in the Events and Presentations section of our Investors section of our corporate website, corporate.mattel.com.

Thank you for participating in today's call. And now I'll turn it back to the operator.

Operator

Thank you. This will conclude today's conference call. You may now disconnect.

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