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MAT.OQ - Q2 2025 Mattel Inc Earnings Call

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OVERVIEW:

Company Summary

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Megan Clapp *Morgan Stanley - Analyst*

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PRESENTATION

Operator

Thank you for standing by. My name is Kate and I will be your conference operator today. At this time, I would like to welcome everyone to Mattel Inc Second-Quarter 2025 Earnings Conference Call. (Operator Instructions)

I would now like to turn the call over to Jenn Kettnich, VP of Investor Relations at Mattel. Please go ahead.

Jenn Kettnich - *Mattel Inc - Head of Investor Relations*

Thank you operator and good afternoon everyone. Joining me today are Ynon Kreiz, Mattel's Chairman and Chief Executive Officer; and Paul Ruh, Mattel's Chief Financial Officer.

As you know, this afternoon we reported Mattel's second quarter 2025 financial results. We will begin today's call with Ynon and Paul providing commentary on our results, after which we will provide some time for questions. Please note that during the question and answer session we respectfully ask that you limit to one question and one follow-up, so that we can get to as many analysts and questions as possible today.

Today's discussion, earnings release, and slide presentation may reference certain non-GAAP financial measures and key performance indicators, which are defined in the slide presentation and earnings release appendices. Please note that Gross Billings figures referenced on this call will be stated in Constant Currency unless stated otherwise.

Our earnings release, slide presentation, and supplemental non-GAAP information can be accessed through the "Investors" section of our corporate website, corporate.mattel.com and the information required by Regulation G regarding non-GAAP financial measures, as well as information regarding our key performance indicators, is included in those documents.

The preliminary financial results included in the earnings 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 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 are 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 described some of these uncertainties: in the risk factors section of our latest Form 10-K Annual Report, our latest Form 10-Q Quarterly Report, our most recent earnings release and slide 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. 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 of 2025 earnings call. We continued to execute our strategy and demonstrate operational excellence - achieving strong international growth and expanding adjusted gross margin, while our US business was impacted by global trade dynamics and timing shifts in retailer ordering patterns.

Looking at key financial metrics for the second quarter as compared to the prior year: Net Sales declined 6% as reported and in constant currency. Adjusted Gross Margin increased by 200 basis points, and Adjusted earnings per share was the same as last year, at $0.19.

We also strengthened our balance sheet and bought back more shares. Despite ongoing trade uncertainty in the US, Mattel's POS was up in all regions in the second quarter and first half of the year. With better visibility, we are resuming guidance and providing a revised outlook for 2025, which factors in the tariffs that have been announced to date. We are confident in the appeal of our brands and our ability to manage through global trade dynamics while strengthening our long-term competitive position.

Looking at the industry and consumer demand, the global toy industry grew year to date through June, per Circana, and we expect this trend to continue. Consumer engagement is positive overall year to date.

In terms of our category performance, here are some key highlights and updates from the quarter: Action Figures was a strong growth driver, supported by new tentpole movie properties such as Jurassic and Minecraft as well as evergreen strength across key properties including WWE. Vehicles continued its exceptional trajectory with double-digit growth, driven by outstanding performance from Hot Wheels.

In Games, UNO, the number one card game in traditional game property, per Circana, also grew and is more culturally relevant than it has ever been. Just last week, we launched the UNO Social Club in Las Vegas, creating an innovative live experience for fans through our iconic card game.

Dolls declined, primarily due to fewer new Barbie product launches and lower associated retailer promotional support versus the prior year, as well as a mix shift from direct import to domestic shipping. Barbie continues to resonate globally and we couldn't be more confident about the strength of the brand. Barbie is the number one doll in the industry and stands among the most recognized and beloved franchises in the world. We look forward to introducing new product innovation, partnerships and activations later this year.

American Girl grew, driven by personalized consumer experiences at retail. Infant, Toddler and Preschool declined due to a decrease in Fisher-Price as well as the planned exits of certain product lines in Baby Gear and Power Wheels. Fisher-Price's performance in the US was disproportionately affected by trade-related uncertainty, and we expect trends to improve in the balance of the year.

Our portfolio is well positioned to meet demand across a range of price points and play patterns. At Mattel, our mission is to create innovative products and experiences designed to inspire fans, entertain audiences, and develop children through play.

We recently announced a strategic collaboration with OpenAI. AI has the power to expand on our mission and broaden the reach of our brands in new and exciting ways. Mattel's work with OpenAI would enable us to leverage new technologies to solidify our leadership in innovation and reimagine new forms of the play. We plan to share more later this year.

We are advancing our entertainment strategy, and recently announced the formation of Mattel Studios, bringing together our film and television units. Our vision for Mattel Studios is to collaborate with leading creators to make standout quality content based on Mattel's iconic brands that will resonate in culture and appeal to global audiences.

We are scaling our pipeline towards our goal of releasing one to two films per year, starting in 2026 with Masters of the Universe and Matchbox, which are both in post-production and expected to be released in June and Fall of 2026 respectively.

We also recently made several announcements across our exciting movie slate in partnership with major studios and leading Hollywood talent. Chris Meledandri's Illumination will develop the Barbie animated film for global theatrical release by Universal Pictures.

Chris is one of the most successful animated filmmakers in the world with three of the top ten animated films of all time: The Super Mario Bros. Movie, Minions, and Despicable Me 3. Barbie is more than a doll, she is a pop culture icon that transcends generations. Chris is more than a filmmaker, he is a visionary storyteller with an extraordinary sense of character and the human spirit. We look forward to creating animated film history together and further strengthening Barbie's standing at the forefront of current culture.

The Hot Wheels live action movie will be directed by Jon M. Chu, the acclaimed filmmaker who directed Wicked, In the Heights, and Crazy Rich Asians. This movie is being produced by JJ Abrams' Bad Robot at Warner Bros;

Monster High will be directed by Gerard Johnstone, the filmmaker behind the horror film M3GAN; and a Whac-a-mole hybrid live-action/animated feature film based on Mattel's classic game will be developed by TriStar Pictures.

In Digital Games, we are on track to release our first self-published game in 2026, with other titles in the making, and we are also expanding our partnership with Netflix beyond content into digital games, with more details to be announced later this year. We are also making progress across television, location-based entertainment, consumer products, and other verticals as part of our broader entertainment strategy to capture the full value of our IP.

Our second quarter performance reflects operational excellence in the current macroeconomic environment as we continue to execute our strategy to grow Mattel's IP-driven toy business and expand our entertainment offering. We achieved meaningful gross margin expansion, grew internationally, and further progressed our entertainment slate. We are embracing technology and collaborating with world-class partners to bring our iconic brands to life in new ways to position Mattel for long-term success.

Now, I would like to turn the call over to Paul Ruh, our Chief Financial Officer, and welcome him to his first Mattel earnings call. Paul, over to you to discuss our results and outlook in more detail.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Thanks, Ynon. I'm thrilled to be at Mattel and look forward to all that is ahead. In the second quarter, we expanded adjusted gross margin, and EPS was the same as last year, despite volatility from the uncertain trade environment impacting our US business.

Two factors that impacted net sales in the US were - retailers adjusting order patterns in light of uncertainty around tariffs during the quarter, and shifts from direct import to domestic shipping, which pushes out Gross Billings recognition.

Looking at key financial metrics for the quarter. Net sales decreased 6% as reported and in constant currency to $1.02 billion. Adjusted Gross Margin increased by 200 basis points to 51.2%, Adjusted Operating Income decreased by $8 million to $88 million. And Adjusted Earnings per Share was the same as last year, at $0.19. Total Gross Billings decreased 4% in constant currency, with double-digit growth in Vehicles and Challenger Categories more than offset by declines in Dolls and Infant, Toddler, and Preschool.

As Ynon mentioned, global trade dynamics and timing shifts in retailer ordering patterns adversely impacted our US performance. Our brands are in demand and POS increased low single digits in the quarter and the first half of the year across all regions.

Looking at Gross Billings by category. Dolls declined 19%. The decrease was primarily due to fewer new Barbie product launches and the associated retailer promotional support versus the prior year, as well as a mix shift from direct import to domestic shipping.

Vehicles increased 10%, demonstrating clear leadership in the category and strong consumer demand. Hot Wheels increased 9%, driven by strength in die-cast cars and tracks, and playsets. Hot Wheels is on track to achieve its eighth consecutive year of growth. Portfolio Vehicles, including Disney Pixar Cars, also grew in the quarter. Infant, Toddler, and Preschool decreased 25% due to a decline in Fisher-Price as well as the planned exit of certain product lines in Baby Gear and Power Wheels.

Fisher-Price's performance in the US was disproportionately affected by the uncertain trade environment, with a decline of 33% in our North America division versus only 2% internationally. Challenger Categories increased 16%, driven by continued strong results in Action Figures, including Jurassic, Minecraft, and WWE. These gains were partially offset by declines in Building Sets.

Geographically, three of our four regions grew in the second quarter. Gross Billings declined 15% in North America, reflecting changes in retailer ordering patterns that broadly impacted our US business.

Internationally, Gross Billings increased 9%, with growth across each of our key regions. EMEA increased 8%, Latin America increased 5%, and Asia Pacific increased 16%. Retail inventories are slightly up, and overall are at appropriate levels and good quality.

Adjusted Gross Margin was 51.2%, an increase of 200 basis points. The increase was primarily driven by savings from our Optimizing for Profitable Growth program, lower inventory management costs, favorable mix, and other favorability driven by supply chain efficiencies, partially offset by cost inflation. These results are a clear reflection of the company's disciplined cost management and operational excellence.

Advertising expenses increased $5 million in Q2 versus the prior year, primarily due to the timing of Easter. Adjusted SG&A expenses decreased $7 million largely driven by savings from our Optimizing for Profitable Growth program.

Adjusted Operating Income decreased by $8 million to $88 million, due to lower sales, partially offset by higher gross margin and lower SG&A. Adjusted EBITDA decreased by 1% to $170 million, and Adjusted Earnings per Share was the same as last year at $0.19.

Consistent with our capital allocation priorities, we repurchased $50 million of shares in the quarter. We have now repurchased $210 million of shares year to date and continue to target $600 million for the full year. Year to date cash used for operations was $275 million compared to $217 million in the prior year.

On a trailing 12-month basis, we generated $530 million of free cash flow compared to $826 million in the prior year. Free cash flow in the prior year period benefited from an outsized reduction in inventory.

Turning to the balance sheet, we finished the quarter with a cash balance of $870 million, an increase of $148 million from the prior year quarter. Total debt remains at $2.34 billion, with $600 million maturing in April of 2026.

Inventory levels are up $91 million to $868 million. The increase includes changes in foreign exchange rates as well as the impact of tariffs on our inventory. We are comfortable with our inventory position, which remains in line with the appropriate levels for this time of the year.

Our leverage ratio, debt to adjusted EBITDA, improved to 2.2 times compared to 2.3 times a year ago, benefiting from an increase in the trailing 12 months Adjusted EBITDA. We continue to prioritize a strong balance sheet and a healthy leverage profile.

We achieved more savings under our Optimizing for Profitable Growth program. In the second quarter, we generated $23 million in savings, with roughly half benefiting cost of goods sold and the other half SG&A. We now have realized $126 million of savings since launching the program in 2024.

Our cost savings target for the year remains at $80 million, with $42 million achieved year to date. We are on track to reach the total program savings of $200 million by 2026. While there is still volatility due to the global trade environment impacting the US, and uncertainty regarding consumer demand in the back half of the year, we are resuming guidance and have updated our outlook for the full year 2025.

Here are the key updates: Net sales to improve in the back half of the year, and for the full year to grow by 1% to 3% in constant currency. This is versus our previous guidance of 2% to 3% with the wider range primarily due to macroeconomic uncertainty as we move through the balance of the year.

Adjusted Gross Margin to be approximately 50%. Adjusted Operating Income to be in the range of $700 million to $750 million. No change in adjusted tax rate of 23% to 24% for the year. Adjusted EPS to be between $1.54 and $1.66.

Free cash flow of approximately $500 million for the full year. The decrease from our prior guidance of $600 million is primarily due to the timing of working capital related to the implementation of tariffs.

As mentioned, we're still targeting $600 million of share repurchases this year. Mattel's guidance considers what the company is aware of today, but is subject to market volatility, unexpected disruptions, including further regulatory actions impacting global trade, and other macro-economic risks and uncertainties.

In closing, the quarter was characterized by growth internationally and in key categories including Action Figures and Vehicles, and operational excellence in the face of US marketplace uncertainty. We are confident in the power of our brand portfolio and our ability to navigate the dynamic environment.

Our balance sheet is strong and we are executing in line with our capital allocation priorities. And with that I will turn it over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kylie Cohu, Jefferies.

Kylie Cohu - *Jefferies LLC - Equity Analyst*

Thanks so much for taking my question. I'm kind of curious, what were kind of the major puts and takes when thinking about the top end versus the low end of the guidance range? And really, which expenses moving forward are you thinking can be more variable and can be flexed up and down? Thank you.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Hi Paul Ruh. Thanks for your question. When it comes to the different scenarios that we're contemplating in our guidance, we factored the following elements. Number one, you see that we lowered the bottom end of our top-line guidance that has a flow-through impact to the bottom line, number one.

Number two, you're also going to see the impact of the tariffs flowing through the P&L in the second half of the year, and that is the second consideration. Against these, we have implemented a variety of actions that will help us withstand some of those headwinds. And those include, of course, implementing our Optimizing for Profitable Growth program and other supply chain efficiencies and some price adjustments effectively, particularly in the US.

So with that array of actions, we're able to withstand some of the uncertainty that is mostly coming in the top line. We feel confident about the guidance, both in the top and the bottom line, and those are the actions that we're taking and the considerations in light of the current macroeconomic environment.

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

Thank you, Kylie.

Operator

Stephen Laszczyk, Goldman Sachs.

Stephen Laszczyk - *Goldman Sachs Group Inc - Analyst*

Thanks for taking the questions. Ynon, Paul, could you talk a little bit more about the approach you and your retail partners are taking to price increases in response to the tariffs this year? And then related to that, on the consumer demand side, around the price increase, I feel like that was one of the harder to handicap variables coming out of the first quarters, would be curious for your latest thinking on that in the back half of the year and how that's factored into your guidance? Thank you.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, great. Thank you for the question, Stephen. So let me start by talking about pricing and state upfront that our goal is to keep prices as low as possible for our consumers. We have already implemented pricing actions that were necessary in our US business, as I mentioned before, in very close collaboration with our retail partners.

At this stage, and based on what we know today, we do not expect any additional price increases this year. And everyone knows, we offer a variety of toys across a very wide range of price points to meet consumer needs.

Approximately 40% to 50% of our products in the US will continue to be priced below $20. And we're committed to the uninterrupted supply of a wide range of high-quality products and providing the right balance of price and value for our consumers.

You know that the breadth of our portfolio, the innovative product, the diversified supply chain, is the strength of ours, and we're committed to the continued supply of our products. So we feel very good about what the pricing actions are. Precisely, we withstand some of the headwinds that we're seeing from a tariff perspective this year.

In terms of tariffs, we estimate that the tariff exposure this year, based on what we know today and before any mitigating actions, is less than $100 million. The primary actions that we are taking, as I said before, to offset the incremental impact of these tariffs are reflected in our guidance, and they include accelerating the diversification of our supply chain, optimizing product sourcing, and where necessary taking the pricing that I just described. And we're also accelerating our cost savings. So that's the outlook for pricing to offset some of the tariff impacts.

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

Hi Stephen. And responding to your question on consumer demand, as we said on the call, we saw consumer demand up for Mattel in every region in the second quarter and the first half and the third quarter to date in every region. This is what we saw.

In terms of the industry, we also saw consumer demand being strong in the second quarter and the first half of the year. The industry growth came from both pricing and units. We also saw, per the latest update that we have, that the industry grew in 7 out of 11 categories, driven primarily by Trading Cards, Building Sets, and Action Figures, and fueled by the Adult Collector segment.

Retailers are adapting to the current situation in terms of ordering patterns. And in fact, looking at Circana data, we saw that toys were the fastest growing among the 16 industries that are tracked by Circana in the early part of the year. And this is against Video Games, Beauty, Tech, CPG, Apparel, and more.

So far, consumer demand is strong. It's fair to say that there's still the potential of global trade dynamics in the broader economy, not just toys, and general uncertainty regarding consumer demand in the back half of the year. So this is still out there.

But we believe that we are well positioned in this environment to execute our strategy and leverage the strength of our brand portfolio, product offerings, supply chain, and commercial execution, and expect to grow in the second half and the full year.

Stephen Laszczyk - *Goldman Sachs Group Inc - Analyst*

Great. Thank you both for that. I'll pass it along.

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

Thank you, Stephen.

Operator

Arpine Kocharyan, UBS.

Arpine Kocharyan - *UBS AG - Analyst*

Hi, thanks for taking my question. So there's a lot going on between you pulling guidance in Q1 and then reinstating it today. But broadly speaking, right, you have $20 million of better cost saves before today that you upped earlier as of Q1. You also have incremental tariffs.

So net of those, the implied guide already suggested around 50% of margin and kind of an EPS range, at least by my calculation? That looks pretty close to what you're guiding today. Would you say those puts and takes are broadly correct? What else am I missing in terms of what has changed in your outlook versus three months ago?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Right. This is probably correct as you stated it. The one thing that we are considering in our guidance is the uncertainty in the second half when it comes to the top line. And we may need a little bit more investment to drive the top line, and that's why we are considering some incremental promotional and sales adjustments to drive sales that may start our gross margin and ultimately our operating income.

Aside from that, as you well know, we are resilient in our supply chain, offsetting the impact of tariffs. The uncertainty still lies primarily in how the consumer will react to the current environment.

Arpine Kocharyan - *UBS AG - Analyst*

Makes sense. Thank you. And you know there is a bit of debate right around whether that disruption in Q2 can be made up in the back half. And I understand the situation is fluid and largely depends on whether the consumer shows up.

But I guess what could you say today in terms of level of visibility that you have, specifically shipment cadence into Q3 to help us better understand that shifting dynamic from Q2 into Q3?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, in terms of the shifts, as you heard from us in our prepared remarks, we observed a shift from direct imports to domestic shipping. And that naturally has a little bit of a delay in how we are able to capture those billings.

We do expect the majority of those sales to be captured in the balance of the year. But naturally when you expect, when you see such dislocation across the different quarters, you might see some of the billings fall into the next quarter and potentially into the next year. But we are confident that we're taking the actions together with the retailers to ensure that that is minimized.

Arpine Kocharyan - *UBS AG - Analyst*

Thank you very much. Thanks.

Operator

Eric Handler, ROTH Capital.

Eric Handler - *Roth Capital Partners LLC - Analyst*

Good afternoon. Thank you for the question. I'm wondering in your discussions with retailers, are you getting any sense that there's an expectation that the consumer is going to be any more price sensitive than they were last year?

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

No, we don't see that. We work very closely with our retail partners when we consider pricing. Our goal is to always offer our product at the best price for the consumer, the lowest possible price for the consumers.

And whenever we do take pricing action, it's very strategic and very thoughtful. And we believe we are well positioned. We have a very broad range of product at different price points. And we believe we are well positioned and our product is well priced, heading into the second half and the holiday season.

Eric Handler - *Roth Capital Partners LLC - Analyst*

Okay, thank you, Ynon. And then I'm just curious with Infant, Toddler, Preschool, if you took out Baby Gear and Power Wheels, would this business be on a positive growth trajectory at this point?

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

Well, we've done a lot of work within the category and specifically with Fisher-Price. Fisher Price in the second quarter was heavily disproportionately impacted by the trade dynamics in the US. And we do expect trends to improve for the balance of the year.

We're seeing retail ordering patterns adapting. We expect performance in the US to improve meaningfully. And with new innovation, new product launches, and more points of distribution, we expect that Fisher-Price will see much improved performance in the second half and the full year.

Operator

Megan Clapp, Morgan Stanley.

Megan Clapp - *Morgan Stanley - Analyst*

Hi, good afternoon. Thanks so much. I wanted to come back to Arpine's second question. You did mention it seemed like there were two factors that impacted US sales in the quarter. One was that shift, from direct import to domestic. But you also talked about retailers adjusting ordering patterns. So I wondered just, Part A of the question, can you quantify the impact from each of those? Or if you're not willing to quantify, just maybe tell us was one bigger than the other?

And the shipping shift just does seem to be more of a timing issue, Paul. I think you mentioned you expect to get the majority of that in the remainder of the year. But what about the change in ordering patterns? Does that impact how you're thinking about the balance of the year at all and is that being made up somewhere else? Thank you.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, thank you for the question. I will not be able to give you a precise detail of how much was DI versus retail ordering pattern shifts because they actually go together. So it's difficult to decompose them.

What I can tell you is that we do believe that the majority of the sales will be caught up in the balance of the year. There may be a little bit of sales that's being shifted into the next quarter or potentially the next year. But again, our efforts with retailers is to make sure that we minimize that.

And when it comes to the shifts in retailer ordering patterns, it's when they go to domestic shipping, they actually are able to receive the products, we recognize the Gross Billings slightly later. And they should be able to catch up in terms of product on the shelves. You should see minimized to no disruptions. And that's our job together with the retailers. Ultimately, that's what matters to make sure that you see a full shelf ahead of the holiday season.

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

And Megan, I may add that the issue we talk about is the uncertainty around the situation. It's what delayed or impacted decisions as the same way that we are now seeing more certainty, which allows us to reinstate guidance. As retailers have more certainty and more visibility into their activities, they're adapting their ordering patterns as well, which is why there's more visibility overall.

The issue in the second quarter specifically was around the uncertainty. Now, that this is getting more clear, things will improve.

Megan Clapp - *Morgan Stanley - Analyst*

Okay, that's helpful. Thank you. And I guess the follow-up question would be -- and apologies if I missed this, but could you just give us the dollar number in terms of --I think you gave it last quarter in terms of what's just embedded in the guide as it relates to tariffs. And just looking at the gross margin guidance, I think it implies around gross margins down kind of 200 basis points in the second half.

How should we be thinking about the impact, the straight impact from tariffs in the second half? And should we be thinking about that continuing into the first half of next year until we lap the impact all else equal?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Sure, let me get into a little bit more details of the impact of tariffs. As I said, we estimate the total tariff exposure for this year, based on what we know today and it might change, and before any mitigating actions to be less than $100 million. And the mitigating actions include accelerating diversification of supply chain, optimizing product and sourcing mix, and taking the necessary actions in terms of pricing.

You might recall that in the earnings call in Q1, we talked about an amount of $270 million of incremental tariff cost exposure before any mitigating actions. And that was relative to our initial planning assumption. At this point, that $270 million of incremental exposure is actually no longer applicable.

What is remaining is our initial planning assumption, which is what I talked about, which is less than $100 million. So that's the impact that you should be expecting, and the majority of that falls into the second half of the year and the corresponding mitigating actions to partially offset -- to mostly offset.

Operator

Alex Perry, Bank of America.

Alex Perry - *Bank of America - Analyst*

Hi, thanks for taking my questions here. Just first, I wanted to ask how we should think about the increase in the point-of-sale data in the quarter versus the 6% decline in reported revenue. Were channel inventory levels elevated? Was there some destocking that needed to play out in the quarter?

And then can you just talk about how you feel about current channel inventory levels as they stand today and any sort of differences across the franchises?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Sure. Happy to take that one. In terms of inventory, inventory started at the right levels and are at the current levels, both at the retail level and also our own internal inventories. Let me make sure that, that's clear. So when it comes to your bridge between POS and our Gross Billings, that's where the dislocation comes in from direct shipping to domestic.

And that's why when you have the delay in recognizing the -- some of the revenue, that's where you see that lower number in our Gross Billing versus the POS. But it's simply mathematics related to the shift in ordering patters.

Alex Perry - *Bank of America - Analyst*

Really helpful. And then just my follow-up, did the implied back half topline outlook come down versus when you last had a formal guidance out there? Like I guess, are you seeing more tempered retailer buying behavior for the holiday versus your expectations when you last provided a formal guidance?

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

No, we don't see that. This is purely about the general uncertainty regarding consumer demand in the back half of the year. As it relates to what we're seeing in our business, there are many things to be excited about in the second half of the year.

By category, we're seeing a lot of momentum in Hot Wheels, which is on track to achieve its eighth consecutive record high year with more new innovation, a new track system, F1 product, more adult activations.

Action figures will continue to see strong momentum, the Jurassic product, Toy Story 30th anniversary. Our games business driven by UNO will continue to see more innovation, more extensions, more culturally relevant opportunities.

We're launching the Mattel Brick Shop new product at scale. This is Hot Wheels product, hitting shelves in the summer or later this summer.

In the Dolls category, we'll see improving trends with Barbie in the second half, new product innovation, more partnerships and activations later in the year. Same for Monster High and Wicked second movie. We talked about Fisher-Price and improving trends, expecting to see improving trends with more innovation, more product launches and more points of distribution.

And going back to what we said about the industry against the uncertainty in consumer demand, the industry is having momentum. The industry is having momentum entering the second half. And there's always the overarching fact that Toys is an important part of children's lives. And the retailers see toys as a strategic priority in their offering.

And so we do expect the total industry to continue to perform well. We expect it to grow for the year. And again, there is that uncertainty regarding consumer demand, but most of what we see is positive.

Operator

Christopher Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Thanks. Good evening everyone. So I was curious, as you think about your pricing architecture in each of these brands, I guess, where do you see the biggest headwinds as you think about maybe a Matchbox and a Hot Wheels versus a Barbie Dreamhouse. And as it relates to that, is your expectation that Barbie can turn to positive growth at some point in the back half of the year?

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

We talked about the wide variety of product offering at different at price points. And the best example is Hot Wheels. With the basic car being the number one selling item in the industry -- selling toy in the industry at -- selling at $1.25. Or you can also buy a collective set with Daniel Arsham. It's part of Daniel Arsham partnership for $700 on Mattel Creations. So same brand, huge variety of price offering.

And the same applies to the rest of the portfolio. This is one of our core strengths, having such a broad offering at different price points. And we continue to work and improve and optimize the line architecture, the price offering, and do that in very close collaboration with our retail partners to make sure that we serve them as our key partners, that we can cater together to the consumer demand.

Even with the pricing actions we already implemented. Approximately 40% to 50% of our product in the US will continue to be priced below $20. So we're very focused on offering affordable prices, at the same time making sure that we don't compromise on the quality of our product, and make sure that there's the right balance, offering best value for consumers.

When it comes to Barbie, Barbie, we do expect to see improving trends in the second half. We're introducing new product innovation, more partnerships, exciting upcoming fall and holiday line, more about collector product.

We see continued momentum in partnership with major brands, and more innovation and cultural touchpoints. We saw -- we just recently launched the Barbie with Type 1 Diabetes, which sold out in a day. And we know that Barbie is resonating in culture in a way that very few brands do out there, not just in toys. So we're very confident about the growth trajectory of Barbie and expect more to come later this year and in 2026.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

And then as you think about the mitigating actions against that $100 million, I guess can you help us think about how it aligns relative to when the upfront tariff cost hits, which obviously is going to be in the back in the third and fourth quarter. Is there any misalignment or does the mitigating actions occur sort of in time when the tariff headwinds are hitting?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

They're mostly in line when the tariff headwinds are hitting, so we have a variety of actions that we're taking. Some of them we started a while ago. But when it comes to in the short term, the tariffs, we're probably going to see the impact flow through inventory into our P&L starting in Q3 and later. And that's when the majority of the impact of the mitigating actions will also be seen.

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

And Chris, just to make the point, and I know you know that, but just to make the point that pricing is just one of the actions we take. We're very focused on leveraging our supply chain and the fact that it's well diversified and how we optimize product sourcing and product mix with pricing being the third action we look to take where necessary.

Operator

James Hardiman, Citi.

James Hardiman - *Citibank Cameroon SA - Analyst*

Good afternoon. So, just to follow up on that pricing point, I guess is the way to think about that --you basically said you've taken all the pricing you're going to take. Is the way to think about that maybe a low to mid-type price increase for the year? And could you maybe contrast that to what some of your peers are going to have to take as we think about much bigger potential tariff cost? And is that an opportunity for share gains?

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, James, we have taken the pricing actions that are necessary at the current tariff price. So we feel very confident that it is behind us. When it comes to the amount, I will not talk to our competition. It is the price that is necessary to offset some of the headwinds in addition to the array of a multitude of other actions that we're taking. And we're trying to take the minimum price possible.

The other important thing when it comes to the magnitude, of course, this is much smaller than the amount or the percentage of tariffs that you will be seeing because you see that in the top line and the tariffs are in the cost.

So, we're very confident with the dialogue we've had with the retailers. And again, it's one of the levers we're pulling amongst the variety to make sure that we still have an array of products that cut across the whole spectrum and provide a balanced, affordable value to our consumers.

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

And James, I would add that we do believe we are very well positioned in terms of what pricing we need to take relative to our competition, given the fact that we have significant flexibility in our supply chain and can move things around to find the best equation in terms of where we make products, at what cost, and how we move around product in terms of distribution and putting the right amount on the right shelf at the right time and price it appropriately. So we feel that we are competitively very well positioned.

James Hardiman - *Citibank Cameroon SA - Analyst*

Got it. And then, with respect to your full-year guidance that you reinstituted, obviously given all the turbulence and disruption that there's been, getting back to even within shouting distance of the initial guidance is, I think, pretty heroic. But maybe it would be helpful to sort of bridge your current guidance with your initial guidance.

You talked about tariffs basically being pretty close to your initial planning assumption. And you've got the pricing offset there. And so as I think about maybe a $0.09 delta between the original midpoint and the midpoint today, it seems like it's more on the margin front. Maybe help us bridge that gap.

Paul Ruh - *Mattel Inc - Chief Financial Officer*

Yeah, James, I don't think that's the majority of the explanation. The majority of the explanation comes actually from the uncertainty in the top line. As you see -- let me walk you through the guidance from top to bottom.

Before we had 2% to 3% growth rate in the top line. Now, we have 1% to 3% growth rate. So that flows through in dollars to operating income and EPS as well.

As you well say, the tariff impact and the other cost structure is fairly similar to what we had before. However, from a margin perspective, just by doing the math, you see optically just less margin, same dollars, but the uncertainty on the top line is what drives the potential adjustment that we have done to that operating income and also the EPS.

James Hardiman - *Citibank Cameroon SA - Analyst*

Okay, that's helpful.

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

Thank you for the question. And again, seeing 200 basis points improvement in the gross margin is what we believe falls in the category of operational excellence. And we saw that across the entire enterprise, how we focus on execution. And these are the moments where Mattel stands out in terms of challenges and uncertainty in the marketplace.

And maybe just to make a few closing comments, and of course, operator, thank you for setting it up. But in conclusion, we continue to demonstrate operational excellence in the quarter despite the uncertain environment. We achieved the meaningful gross margin expansion that we talked about, the 200 basis points; strong international growth of 9% and growing in each of the three regions; and made exciting progress on our entertainment slate.

The consumer demand for our toys was strong in the second quarter, as we said, as well as the first half of the year. And it was exciting to see the toy industry performing well and growing. And we do expect to gain share this year in key categories based on the strength of our brands and product roadmap.

We also believe, as I said, that we are very well positioned in this environment to execute our strategy and leverage the strength of our brand portfolio, product offering, supply chain, and commercial execution, and expect to grow in the second half and the full year, as we said in our guidance.

And before we close, I just would like to welcome once again, Paul. Your first Mattel earnings call is now officially in the books. Congratulations. Thank you, everyone, and I will now turn the call back over to the operator.

Operator

Ladies and gentlemen, that concludes today's call. Thank you for joining. You may not disconnect.
