

Mattel, Inc. (MAT)

\$10.12 (As of 07/02/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

Summary

Shares of Mattel have underperformed the industry so far this year. The dismal performance can be primarily attributed to the coronavirus outbreak. Due to the same, the company expects second-quarter 2020 to be more challenging than the first quarter. Also, its performance is likely to be impacted by supply chain disruptions. Notably, earnings estimates for 2020 have declined over the past 30 days. However, the company remains well positioned for growth on the back of strong product line-up, which includes core brands, licensed brands and lucrative product associations. Further, various initiatives like product innovation, marketing partnerships, promotional initiatives and digital efforts along with increased focus on structural simplification and capital light programs are likely to add to the positives.

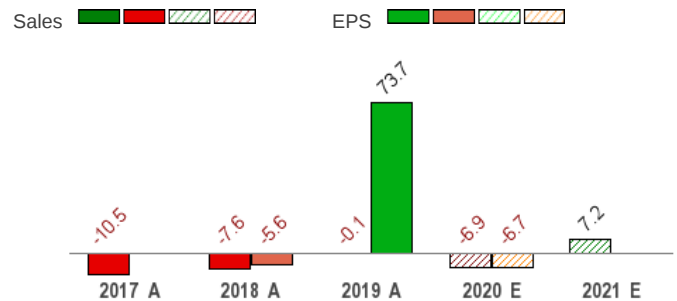
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$14.83 - \$6.53
20 Day Average Volume (sh)	3,896,406
Market Cap	\$3.5 B
YTD Price Change	-25.3%
Beta	1.53
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Toys - Games - Hobbies
Zacks Industry Rank	Top 29% (74 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-33.3%
Last Sales Surprise	-8.3%
EPS F1 Est- 4 week change	-5.8%
Expected Report Date	07/23/2020
Earnings ESP	8.9%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	638 E	780 E	1,510 E	1,543 E	4,496 E
2020	594 A	655 E	1,459 E	1,487 E	4,195 E
2019	689 A	860 A	1,482 A	1,474 A	4,505 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.39 E	-\$0.29 E	\$0.41 E	\$0.30 E	\$0.10 E
2020	-\$0.56 A	-\$0.38 E	\$0.37 E	\$0.27 E	-\$0.32 E
2019	-\$0.44 A	-\$0.25 A	\$0.26 A	\$0.11 A	-\$0.30 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/02/2020. The reports text is as of 07/03/2020.

Overview

Headquartered in El Segundo, CA, Mattel Inc. is the world's largest manufacturer of toys. The company's products are sold directly to retailers and wholesalers in most European, Latin American and Asian countries as well as in Australia, Canada and New Zealand through the Mattel Girls & Boys Brands, Fisher-Price Brands, American Girl Brands, and Construction and Arts & Crafts Brands. The products are sold through agents as well as distributors in countries where Mattel has no direct presence.

Mattel's portfolio of global brands has vast intellectual property potential. The brands and products are widely classified as Power Brands and Toy Box.

The company's Power Brands include Barbie, Hot Wheels, Fisher-Price, Thomas & Friends, and American Girl.

Toy Box includes new and innovative products as well as time-tested classics from Mattel-owned and licensed entertainment properties. Under Toy Box, Mattel has owned brands such as MEGA, Polly Pocket, Uno, Enchantimals, Fireman Sam and Matchbox. The company's partner brands include Disney (CARS, Mickey Mouse Clubhouse), WWE Wrestling, Nickelodeon (Shimmer and Shine, Blaze, and the Monster Machines), Warner Bros. Consumer Products (DC Comics — Batman, DC Comics Superhero Girls), NBCUniversal (Jurassic World, and Fast and Furious), and Mojang (Minecraft).

The company's operating segments are separately managed business units, consisting North America (48% to total net sales in first-quarter 2020), which includes the U.S. and Canada; International (45%); and American Girl (7%). The North America and International segments sell products under the Mattel Girls & Boys Brands, Fisher-Price Brands, and Construction and Arts & Crafts Brands categories.



Reasons To Buy:

▲ **Increased Focus on Key Brands:** Given a strong product line-up, which includes core brands, licensed brands and lucrative product associations, Mattel remains well positioned for growth. Owing to its popularity among young boys and girls, the company's premier brand like Hot Wheels has been the category leader in multiple product segments for several years. Continued strategic investments in the brand are likely to keep widening the depth of fun kids can have with Hot Wheels. Mattel has also forayed into other consumer product categories such as apparel, fashion and accessories to build the brands. In fact, in 2018, worldwide gross sales for Hot Wheels were up 9% and reached the highest annual sales in its 50-year history. In 2019, gross sales at the Hot Wheels brand improved 12% on a reported basis and 17% at constant currency. It also marked the sixth consecutive year of POS growth both in the U.S. and globally.

Mattel's aggressive efforts to improve its point of sale while managing its costs coupled with strategic partnerships and expansion in international markets bode well

Meanwhile, the company has been undertaking efforts on the digital front and focusing on better execution of marketing and promotional initiatives to bring back its flagship brands, Barbie and Fisher-Price, to their former positions. In fact, the company has formed a brand development framework to unlock the scale and profitability of its brands and modernize them for the digital world. Notably, the company is making significant progress to transform Mattel into an IP-driven high-performing toy company.

▲ **Cost-Control & Other Efforts to Drive Growth:** Through its current cost-saving program, Mattel remains focused on achieving cumulative cost savings, thus, enhancing margins. Basically, the company is simplifying its organization structure, optimizing processes and supply chain to generate savings across operations. In fact, Mattel already achieved \$875 million of structural simplification run-rate savings in 2019, which exceeds its target of \$650 million. By the end of this year, the company anticipates to reduce structural costs by more than \$1 billion.

The company is focused on strong cost and productivity initiatives to support growth, operate more efficiently and rebuild margins. For 2020, Mattel targets gross margin to increase 150-200 basis points primarily backed by structural simplification program and incremental savings from its capital light program. Cost saving initiative also helped the company to report margin growth. In first-quarter 2020, adjusted gross margin expanded 450 basis points to 43.5%, driven by savings from the Structural Simplification program and capital light. The company witnessed highest gross margin growth in the first quarter since 2016.

▲ **Robust Hot Wheels Sales:** Robust Hot Wheels sales have impressed investors. In first-quarter 2020, Hot Wheels sales increased 5% on a reported basis and 8% in constant currency. In North America and International Hot Wheels sales rose 11% and 1% year over year, respectively, on a reported basis. Hot Wheels also gained market share according to NPD. In fourth-quarter 2019, gross sales at the Hot Wheels brand improved 7% on a reported basis and 8% in constant currency.

▲ **Enough Liquidity to Tide Over Coronavirus Pandemic:** Mattel, in its first-quarter 2020 earnings release, highlighted that it has enough liquidity to manage the ongoing crisis. As of Mar 31, 2020, the company had \$2.8 billion debt, almost flat sequentially. The company ended the quarter with cash and cash equivalent of \$499.4 million. Although the company's cash is quite low in comparison to its debt, it has no debt maturing until March 2023. The company also has access to \$1.6 billion senior secured revolving credit facilities.

Reasons To Sell:

- ▼ **Lower-Than-Expected Q1 Results:** Mattel disappointed investors with its first-quarter 2020 performance. Both top and bottom lines not only missed the Zacks Consensus Estimate but also declined year over year. The company reported adjusted loss per share of 56 cents, wider than the Zacks Consensus Estimate of a loss of 42 cents. In the prior-year quarter, the company had reported adjusted loss of 42 cents. Net sales of \$594 million missed the Zacks Consensus Estimate of \$648 million and declined 14% year over year. Results in the quarter were impacted by the decline in worldwide gross sales for Dolls, Infant, Toddler and Preschool and Action Figures, Building Sets and Games.
- ▼ **Q2 Likely to be More Challenging:** Due to the coronavirus pandemic, the company expects second-quarter 2020 to be more challenging than the first quarter. Its performance is likely to be impacted by supply chain disruptions. The company said that getting its products to customers has been challenging. It faced retail disruptions in March and April and the same is likely to continue in the long run. Results will also be impacted by postponed launch of Universal's Minions, which was expected to be a major growth driver in 2020.
- ▼ **Traditional Toys and Age Compression Mar Top Line:** Toy manufacturers have to battle a broad array of alternative modes of entertainment including video games, MP3 players, tablets, smartphones and other electronic devices. Mattel's revenues have been under some pressure over the past few quarters due to lower demand for games as children are opting for electronic versions of games on smartphones and tablets. Another factor affecting demand for these brands is age compression. Kids are growing up and moving on much faster than they used to and also get bored easily. For instance, demand for some toys that were preferred by kids aged 3 to 9 years previously has narrowed down to the band of 3 to 6 years. This is tapering the demand for toys, thereby hurting revenues.
- ▼ **High Promotional Expenses:** Mattel has been focusing on advertising, marketing and promotional activities to improve POS momentum and drive sales. However, such activities are resulting in high expenses. In the first-quarter 2020, advertising and promotion expenses increased 10.4% from the year-ago quarter.

The coronavirus pandemic, high costs and stiff competition from an array of alternative modes of entertainment including video games, MP3 players, tablets, smartphones and other electronic devices remains a concern.

Last Earnings Report

Mattel Misses Q1 Earnings & Revenue Estimates

Mattel reported first-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. In fact, revenues missed the consensus mark for the second straight quarter. Moreover, both the metrics declined sharply year over year. The company withdrew its previously announced guidance citing the coronavirus pandemic-induced crisis.

Decline in worldwide gross sales for Dolls, Infant, Toddler and Preschool and Action Figures, Building Sets and Games impacted the reported quarter's results.

The company reported adjusted loss per share of 56 cents, wider than the Zacks Consensus Estimate of a loss of 42 cents. In the prior-year quarter, the company had reported adjusted loss of 42 cents.

Sales Discussion

Net sales of \$594 million missed the Zacks Consensus Estimate of \$648 million and declined 14% year over year. On a constant-currency basis, sales fell 12% from the prior-year quarter.

In **North America**, gross sales were down 17%, both as reported and at constant currency. This can primarily be attributed to decrease in sales in Infant, Toddler and Preschool (including Fisher-Price and Thomas & Friends, and Fisher-Price Friends), Action Figures, Building Sets and Games (including Toy Story 4 and MEGA), and Dolls (including owned brands and Barbie). The decline was marginally offset by increase in sales at Vehicles, which include Hot Wheels.

In the **International** region, gross sales declined 11% (as reported), on account of decrease in sales in Infant, Toddler and Preschool (including Fisher-Price and Thomas & Friends, and Fisher-Price Friends), Dolls (including Barbie, marginally negated by increase in owned brands), and Action Figures, Building Sets and Games (including DC Comics and Jurassic World, partially offset by growth in UNO). Moreover, gross sales declined 8% in constant currency.

Brand-Wise Worldwide Sales

Mattel, through its subsidiaries, sells a broad range of toys. These items are grouped under different brands — Barbie, Hot Wheels, Fisher-Price and Thomas & Friends and Other.

As reported, worldwide gross sales at Mattel Power Brands were down 14% to \$670 million year over year. The metric declined 12% on a constant-currency basis. Moreover, the Barbie brand witnessed a decline of 10% as reported and 8% in constant currency. Gross sales at the Hot Wheels brand improved 5% on a reported basis and 8% in constant currency. However, gross sales were down 25% as reported and 24% in constant currency at the Fisher-Price and Thomas & Friends brands. Gross sales at Other declined 20% as reported and 19% in constant currency.

Operating Results

Adjusted gross margin expanded 450 basis points to 43.5%, driven by savings from the Structural Simplification program and capital light. The company witnessed highest gross margin growth in the reported quarter since 2016.

Adjusted other selling and administrative expenses increased 9% to \$314.9 million. The improvement can primarily be attributed to increase in incentive compensation expense and employee-related costs.

Balance Sheet

As of Mar 31, 2020, the company's cash and equivalents were \$499.4 million compared with \$630 million as of Dec 31, 2019. Total inventories as of the end of the first quarter rose 13.1% year over year to \$560.6 million.

The company's long-term debt amounted to \$2,848.9 million as of Mar 31, 2020, higher than \$2,846.8 million as of Dec 31, 2019. Shareholder's equity was \$157.9 million.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-8.25%
EPS Surprise	-33.33%
Quarterly EPS	-0.56
Annual EPS (TTM)	-0.44

Valuation

Mattel's shares have declined 25.3% in year-to-date period and 12.1% in the trailing 12-month period. Stocks in the Zacks sub-industry is up by 18%, but the Zacks Consumer Discretionary sector is down by 11.7% in the year-to-date period. Over the past year, the Zacks sub-industry is up 29.1%, but sector is down 8.8%.

The S&P 500 index is down 3.2% in the year-to-date period, but up 4.7% in the past year.

The stock is currently trading at 0.81X forward 12-month sales, which compares to 5.79X for the Zacks sub-industry, 2.21X for the Zacks sector and 3.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.08X and as low as 0.54X, with a 5-year median of 1.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$11 price target reflects 0.88X forward 12-month sales.

The table below shows summary valuation data for MAT.

Valuation Multiples - MAT					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.81	5.79	2.21	3.47
	5-Year High	2.08	5.98	3.19	3.47
	5-Year Low	0.54	3.46	1.67	2.53
	5-Year Median	1.12	4.73	2.5	3.02
P/B TTM	Current	22.24	4.51	2.99	4.27
	5-Year High	23.86	6.55	5.02	4.56
	5-Year Low	2.41	3.06	2.2	2.83
	5-Year Median	4.64	4.08	4.21	3.69
EV/EBITDA TTM	Current	17.2	26.16	10.11	11.57
	5-Year High	33.04	26.16	17.62	12.86
	5-Year Low	N/A	11.04	8.29	8.25
	5-Year Median	14.05	14.72	12.23	10.86

As of 07/02/2020

Industry Analysis Zacks Industry Rank: Top 29% (74 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Activision Blizzard, Inc. (ATVI)	Outperform	1
TakeTwo Interactive Software, Inc. (TTWO)	Outperform	3
Electronic Arts Inc. (EA)	Neutral	3
Callaway Golf Company (ELY)	Neutral	3
Glu Mobile Inc. (GLUU)	Neutral	3
Hasbro, Inc. (HAS)	Neutral	4
JAKKS Pacific, Inc. (JAKK)	Neutral	4
Nintendo Co. (NTDOY)	Neutral	2

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	MAT	X Industry	S&P 500	EA	HAS	TTWO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	F	-	-	C	B	B
Market Cap	3.51 B	6.87 B	21.98 B	38.64 B	10.22 B	16.38 B
# of Analysts	4	6.5	14	13	7	23
Dividend Yield	0.00%	0.00%	1.91%	0.00%	3.65%	0.00%
Value Score	D	-	-	F	B	D
Cash/Price	0.15	0.15	0.07	0.15	0.13	0.16
EV/EBITDA	20.40	20.10	12.74	20.09	14.69	20.12
PEG Ratio	NA	2.79	2.89	3.64	1.53	6.85
Price/Book (P/B)	22.24	4.90	2.98	5.20	3.70	6.45
Price/Cash Flow (P/CF)	25.39	24.94	11.75	24.94	11.91	25.06
P/E (F1)	NA	27.26	21.41	26.53	21.01	38.68
Price/Sales (P/S)	0.80	4.20	2.30	6.98	2.01	5.30
Earnings Yield	-3.16%	3.49%	4.42%	3.77%	4.76%	2.58%
Debt/Equity	18.04	0.12	0.76	0.05	1.87	0.06
Cash Flow (\$/share)	0.40	2.34	6.94	5.37	6.27	5.76
Growth Score	F	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	NA%	15.11%	10.93%	15.11%	4.60%	29.50%
Proj. EPS Growth (F1/F0)	-5.83%	24.80%	-9.56%	-11.79%	-12.96%	-32.49%
Curr. Cash Flow Growth	-214.17%	-3.32%	5.51%	15.43%	-3.32%	-8.18%
Hist. Cash Flow Growth (3-5 yrs)	-28.91%	6.23%	8.62%	7.26%	5.21%	12.57%
Current Ratio	1.60	1.99	1.30	2.45	1.91	1.71
Debt/Capital	94.75%	15.95%	44.46%	5.05%	65.21%	5.65%
Net Margin	-5.62%	10.71%	10.62%	54.88%	8.33%	13.09%
Return on Equity	-39.51%	15.68%	15.75%	16.79%	24.71%	18.22%
Sales/Assets	0.85	0.70	0.55	0.52	0.68	0.65
Proj. Sales Growth (F1/F0)	-6.88%	7.58%	-2.54%	7.58%	20.33%	-9.83%
Momentum Score	D	-	-	A	D	D
Daily Price Chg	2.95%	0.00%	0.47%	-1.02%	-0.12%	0.20%
1 Week Price Chg	-4.87%	-1.00%	-3.90%	0.57%	-1.02%	-1.00%
4 Week Price Chg	-0.10%	5.11%	-3.77%	14.22%	-3.19%	13.18%
12 Week Price Chg	8.82%	26.89%	8.02%	26.50%	-1.41%	20.94%
52 Week Price Chg	-12.15%	5.23%	-7.59%	36.42%	-29.88%	22.30%
20 Day Average Volume	3,896,406	402,631	2,649,865	2,897,428	1,145,954	2,055,693
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.83%	-0.40%	0.00%	0.89%	-0.80%	0.00%
(F1) EPS Est 12 week change	-693.75%	-7.11%	-9.53%	-0.50%	-13.71%	-19.93%
(Q1) EPS Est Mthly Chg	5.14%	0.00%	0.00%	3.63%	-3.36%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.