

## Mattel, Inc. (MAT)

**\$8.30** (As of 05/01/20)

Price Target (6-12 Months): **\$9.50**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 02/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

### Summary

Although, shares of Mattel have underperformed the industry in the past year, 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. Also, 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. Moreover, simplification in its organizational structure as well as optimization in process and supply chains, along with high Barbie sales globally, are likely to benefit the company going forward. The company is well positioned to tackle the pandemic as consumers shift their spending from costly entertainment to toys. Of late, estimate for current quarter is stable.

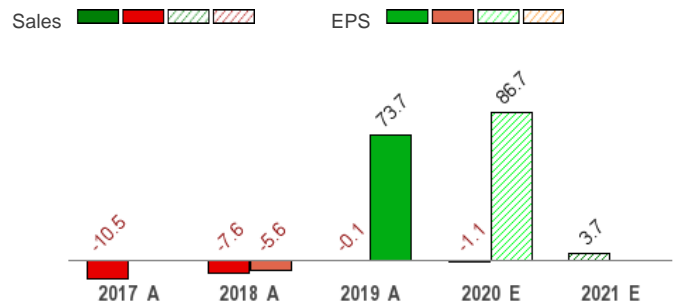
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$14.83 - \$6.53
20 Day Average Volume (sh)	4,256,445
Market Cap	\$2.9 B
YTD Price Change	-38.8%
Beta	1.51
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Toys - Games - Hobbies</a>
Zacks Industry Rank	Top 1% (1 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	225.0%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-169.0%
Expected Report Date	05/05/2020
Earnings ESP	-1.9%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	698 E	818 E	1,545 E	1,576 E	4,620 E
2020	652 E	770 E	1,492 E	1,533 E	4,457 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	-\$0.16 E	\$0.43 E	\$0.32 E	\$0.24 E
2020	-\$0.42 E	-\$0.30 E	\$0.39 E	\$0.28 E	-\$0.04 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

## Overview

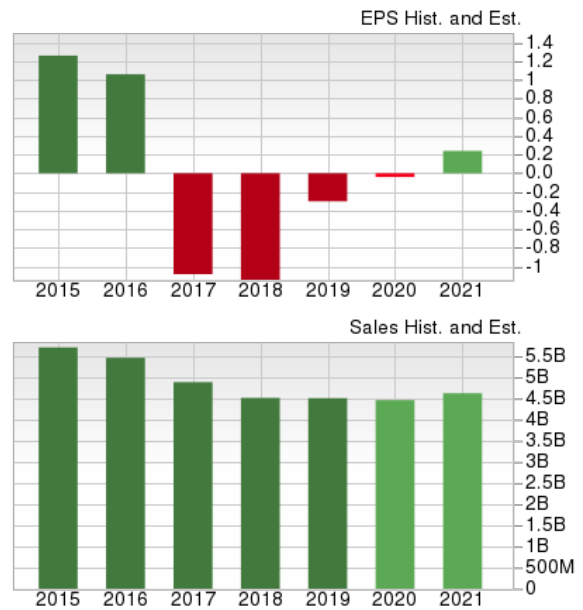
Headquartered in El Segundo, CA, Mattel Inc. is the world's largest manufacturer of toys. The company's products are sold directly to retailers and wholesalers in most European, Latin American and Asian countries as well as in Australia, Canada and New Zealand through the Mattel Girls & Boys Brands, 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 (44.2% to total gross sales in fourth-quarter 2019), which includes the U.S. and Canada; International (47.8%); and American Girl (8%). 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.

Moreover, the company also successfully reduced capital expenditures by more than 60% from \$297 million to \$116 million, marking the lowest level of CapEx in more than nine years. The company expects to continue with 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.

▲ **Robust Barbie Sales Aid:** Robust Barbie sales across all regions impressed investors. In 2018, gross Barbie sales were up 15% in constant currency. In North America and International segments, Barbie sales increased 19% and 12%, respectively, on a constant-currency basis, in 2018. As a result of this performance, the NPD ranked Mattel as the top-most global toy company in 2018. Further, in 2019, gross Barbie sales were up 9% on a reported basis and 14% in constant currency basis. The company witnessed the ninth straight quarter of year-over-year growth for Barbie, during the fourth quarter 2019. In 2020, the brand is likely to continue gaining positive momentum.

---

---

## Risks

- **Lower-Than-Expected Q4 Revenues:** In fourth-quarter 2019, net sales of \$1,473.7 million missed the consensus mark of \$1,489 million. It also declined 3.3% on a year-over-year basis. Also, on a constant-currency basis, sales declined 3% from the prior-year quarter's figure. The dismal performance was primarily caused by the impact of lower sales in retail stores as well as negative foreign currency translations.
  - **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 fourth-quarter 2019, advertising and promotion expenses increased 10.4% from the year-ago quarter.
-

## Last Earnings Report

### Mattel Earnings Surpass Estimates in Q4, Revenue Miss

Mattel reported mixed fourth-quarter 2019 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues missed the same. The bottom line beat the consensus estimate for the sixth straight quarter.

The company reported adjusted earnings of 11 cents, which surpassed the Zacks Consensus Estimate of break-even earnings. In the prior-year quarter, the company had reported adjusted earnings of 3 cents. The company's earnings benefited from cost-cutting measures.

Quarter Ending **12/2019**

Report Date	<b>Feb 13, 2020</b>
Sales Surprise	<b>-1.01%</b>
EPS Surprise	<b>225.00%</b>
Quarterly EPS	<b>0.11</b>
Annual EPS (TTM)	<b>-0.32</b>

### Sales Discussion

Net sales of \$1,473.7 million missed the Zacks Consensus Estimate of \$1,489 million and declined 3% year over year. On a constant-currency basis, sales also declined 3% from the prior-year quarter. Decline in sales can primarily be attributed to dismal performance of American Girl and Fisher-Price brands.

In North America, gross sales declined 1%, both as reported and at constant currency. This was primarily due to decrease in Dolls (including Barbie and owned brands) and Infant, Toddler and Preschool (including Fisher-Price Friends, and Fisher-Price and Thomas & Friends).

Meanwhile, in the International region, gross sales were down 1% (as reported), driven by growth in Infant, Toddler and Preschool (including Fisher-Price Friends, and Fisher-Price and Thomas & Friends) and Vehicles (including CARS and Jurassic World vehicles marginally overshadowed by rise in sales of Hot Wheels). However, gross sales were flat in constant currency.

### Brand-Wise Worldwide Sales

Mattel, through its subsidiaries, sells a broad range of toys. These items are grouped under four wide categories — Mattel Girls & Boys Brands, Fisher-Price Brands, American Girl Brands, and Construction and Arts & Crafts Brands.

As reported, worldwide gross sales at Mattel Power Brands were down 3% to \$1,665.3 million year over year. The metric declined 2% on a constant-currency basis.

However, the Barbie brand witnessed 2% growth as reported and 3% in constant currency, driven by positive POS momentum. Gross sales at the Hot Wheels brand improved 7% on a reported basis and 8% in constant currency. However, gross sales were down 3% as reported and 3% in constant currency at the Fisher-Price and Thomas & Friends brands. Gross sales at Other declined 9% as reported and 9% in constant currency.

### Operating Results

Adjusted gross margin expanded 230 basis points to 48.9%, driven by savings from the Structural Simplification program and lower foreign exchange.

Adjusted other selling and administrative expenses decreased 2% to \$383.8 million. The increase was primarily driven asset impairment expenses.

### Balance Sheet

As of Dec 31, 2019, the company's cash and equivalents were \$630 million compared with \$594.5 million as of Dec 31, 2018. Total inventories as of the end of the fourth quarter declined 8.7% year over year to \$495.5 million.

The company's long-term debt amounted to \$2,846.8 million as of Dec 31, 2019, higher than \$ 2,851.7 million as of Dec 31, 2018. Shareholder's equity was \$491.7 million.

### 2020 Guidance

The company's guidance excludes any potential impact of coronavirus. The company expect 2020 gross sales to increase in the range of 1% to 2.5%, which include a minor foreign exchange impact. Sales are likely to be driven by mid-single digit growth in the company's own brands, marginally offset by decrease in licensed brand. The company continues to expect growth in Doll category.

Margin is anticipated to increase in 2020 owing to benefits from structural simplification and capital light programs. Adjusted EBITDA is anticipated to be in the range of \$575 million to \$600 million.

## Valuation

Mattel's shares have declined 38.7% in year-to-date period and 29.8% in the trailing 12-month period. Stocks in the Zacks sub-industry are down by 0.6%, and stocks in the Zacks Consumer Discretionary sector are down by 20.6%, in the year-to-date period. Over the past year, the Zacks sub-industry is up by 12.3% but sector is down by 17.2%.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 0.64X forward 12-month sales, which compares to 5.03X for the Zacks sub-industry, 1.94X for the Zacks sector and 3.19X 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 1.15X. Our Outperform recommendation indicates that the stock will perform better-than the market. Our \$9.50 price target reflects 0.42X 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	0.64	5.03	1.94	3.19
	5-Year High	2.08	5.98	3.19	3.44
	5-Year Low	0.54	3.46	1.67	2.54
	5-Year Median	1.15	4.7	2.52	3.01
P/B TTM	Current	5.85	3.88	2.69	3.75
	5-Year High	11.97	6.55	5.04	4.55
	5-Year Low	2.41	3.06	2.18	2.84
	5-Year Median	4.51	4.04	4.22	3.64
EV/EBITDA TTM	Current	13.15	22.85	9.65	10.36
	5-Year High	33.04	23.99	17.6	12.87
	5-Year Low	N/A	11.04	8.27	8.27
	5-Year Median	13.74	14.58	12.24	10.78

As of 05/01/2020

## Industry Analysis Zacks Industry Rank: Top 1% (1 out of 253)



## Top Peers

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

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	MAT	X Industry	S&P 500	EA	HAS	TTWO
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	1	3	2
VGM Score	A	-	-	C	B	C
Market Cap	2.88 B	6.46 B	20.61 B	32.81 B	9.42 B	13.91 B
# of Analysts	5	5.5	14	13	7	21
Dividend Yield	0.00%	0.00%	2.11%	0.00%	3.96%	0.00%
Value Score	A	-	-	D	C	D
Cash/Price	0.22	0.17	0.06	0.17	0.45	0.17
EV/EBITDA	18.25	21.29	11.87	23.28	9.72	22.95
PEG Ratio	NA	2.10	2.47	2.80	1.37	3.17
Price/Book (P/B)	5.85	4.61	2.67	4.57	2.90	5.79
Price/Cash Flow (P/CF)	21.87	22.29	10.66	25.42	11.52	19.22
P/E (F1)	NA	24.39	19.01	22.87	17.04	28.71
Price/Sales (P/S)	0.64	3.83	2.10	6.09	1.85	4.85
Earnings Yield	-0.48%	3.71%	5.05%	4.37%	5.86%	3.48%
Debt/Equity	5.79	0.20	0.72	0.14	1.35	0.06
Cash Flow (\$/share)	0.40	1.99	7.01	4.50	6.27	6.30
Growth Score	A	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	-42.20%	15.28%	10.88%	16.39%	5.80%	29.79%
Proj. EPS Growth (F1/F0)	86.67%	10.63%	-7.32%	4.95%	-1.15%	-8.95%
Curr. Cash Flow Growth	-214.17%	19.56%	5.92%	11.18%	-3.32%	98.75%
Hist. Cash Flow Growth (3-5 yrs)	-28.91%	5.21%	8.55%	17.13%	5.21%	0.39%
Current Ratio	1.76	2.50	1.23	2.84	5.37	1.64
Debt/Capital	85.27%	16.41%	43.84%	12.09%	57.46%	5.93%
Net Margin	-4.90%	10.07%	11.08%	52.52%	8.33%	11.81%
Return on Equity	-23.30%	14.23%	16.44%	18.86%	26.36%	15.30%
Sales/Assets	0.86	0.75	0.54	0.53	0.79	0.63
Proj. Sales Growth (F1/F0)	-1.06%	3.20%	-1.42%	3.20%	27.98%	-6.83%
Momentum Score	C	-	-	A	B	B
Daily Price Chg	-2.46%	0.00%	-2.39%	1.31%	-0.96%	-0.11%
1 Week Price Chg	-8.93%	0.00%	-1.74%	1.01%	-0.44%	2.76%
4 Week Price Chg	5.31%	5.69%	17.07%	11.70%	2.53%	1.29%
12 Week Price Chg	-39.06%	-9.76%	-18.53%	3.87%	-29.54%	-5.24%
52 Week Price Chg	-28.11%	-25.00%	-9.82%	21.04%	-30.27%	21.44%
20 Day Average Volume	4,256,445	117,645	2,641,413	3,256,681	1,429,247	2,042,713
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.16%	0.00%
(F1) EPS Est 4 week change	-168.97%	0.00%	-6.62%	0.13%	-4.02%	0.00%
(F1) EPS Est 12 week change	41.18%	-2.56%	-13.28%	0.05%	-10.52%	-3.69%
(Q1) EPS Est Mthly Chg	-37.96%	0.00%	-11.97%	0.00%	-20.02%	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	A
Growth Score	A
Momentum Score	C
VGM Score	A

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.