

## Mattel, Inc. (MAT)

**\$14.07** (As of 01/06/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/09/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: D

## Summary

Shares of Mattel have outperformed the industry in the past six months. The uptick might be attributed to better-than-expected earnings and revenues trend. While the bottom line beat the Zacks Consensus Estimate for the fifth straight quarter, the top line surpassed the same for the fourth consecutive quarter. Mattel also recorded sales growth across categories and geographies in third-quarter 2019. It anticipates its Cars franchise, investments in emerging markets and key power brands — Barbie, Hot Wheels and Fisher-Price — to drive growth. In the third quarter of 2019, gross Barbie sales increased 12% at constant currency. The company witnessed the eighth straight quarter of year-over-year growth for Barbie. Yet, challenging retail environment for toys is a concern. Of late, estimates for 2020 have been stable over the past 30 days.

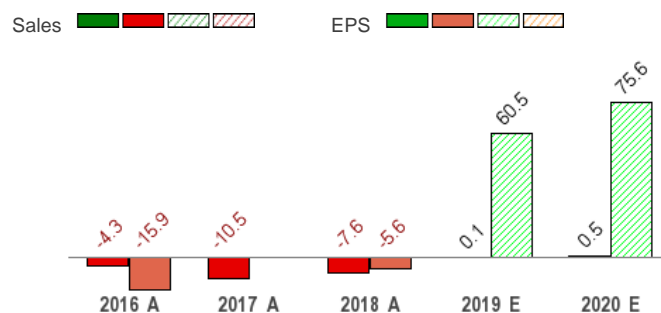
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$17.27 - \$9.06
20 Day Average Volume (sh)	3,669,979
Market Cap	\$4.9 B
YTD Price Change	3.8%
Beta	1.70
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Toys - Games - Hobbies</a>
Zacks Industry Rank	Bottom 9% (231 out of 254)

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



Last EPS Surprise	225.0%
Last Sales Surprise	4.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.1

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	653 E	857 E	1,512 E	1,530 E	4,541 E
2019	689 A	860 A	1,482 A	1,481 E	4,517 E
2018	708 A	841 A	1,438 A	1,524 A	4,511 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.40 E	-\$0.21 E	\$0.34 E	\$0.15 E	-\$0.11 E
2019	-\$0.44 A	-\$0.25 A	\$0.26 A	-\$0.01 E	-\$0.45 E
2018	-\$0.60 A	-\$0.56 A	\$0.18 A	\$0.04 A	-\$1.14 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 01/06/2020. The reports text is as of 01/07/2020.

## Overview

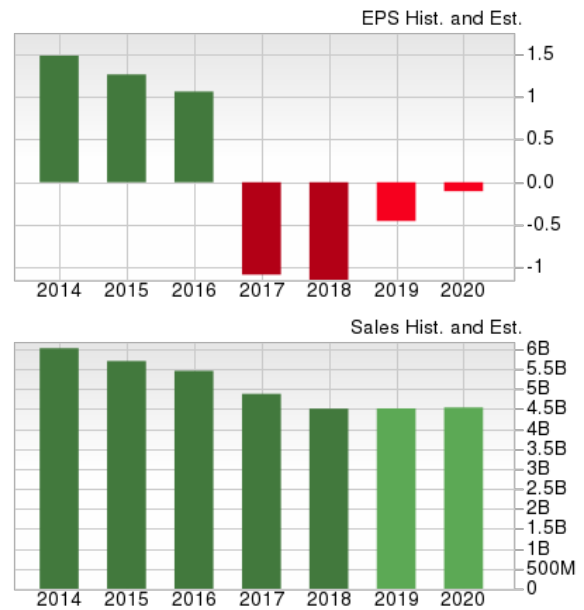
Headquartered in El Segundo, CA, Mattel Inc. is the world's largest manufacturer of toys. The company's products are sold directly to retailers and wholesalers in most European, Latin American and Asian countries as well as in Australia, Canada and New Zealand through the Mattel Girls & Boys Brands, 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 (50.4% of total gross sales in 2018), which includes the U.S. and Canada; International (42.4%); and American Girl (7.2%). The North America and International segments sell products under the Mattel Girls & Boys Brands, Fisher-Price Brands, and Construction and Arts & Crafts Brands categories.



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## Reasons To Buy:

▲ **Sales Revival Encourages:** A declining top-line trend, which has been affecting Mattel for quite some time, came to a halt after the company witnessed sales growth in second-quarter 2019, a trend that continued in the third-quarter 2019. In the third quarter, net sales of \$1,481.6 million surpassed the consensus mark of \$1,421 million and improved 3% year over year. On a constant-currency basis, sales improved 4% from the prior-year quarter. The company also witnessed sales growth across most of its categories and operating regions. Various initiatives like product innovation, marketing partnerships, promotional initiatives and digital efforts also yielded results.

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

Post third-quarter results, the company's shares improved sharply and also helped the stock to outperform the industry in the past six months.

▲ **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. Global POS was also up in a high-single digit for the year. In third-quarter 2019, gross sales at the Hot Wheels brand improved 25% on a reported basis and 27% in constant currency.

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.

▲ **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 \$826 million of structural simplification run-rate savings in the first nine months of 2019, which exceeds its target of \$650 million. The company also expects to exceed the target of \$854 million by the end of 2019.

The company expects to continue with strong cost and productivity initiatives to support growth, operate more efficiently and rebuild margins. In fact, it targets gross margin of about 50% in the long term backed by cost savings.

▲ **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 the third quarter of 2019, gross Barbie sales were up 12% in constant currency following a gain of 13% in second-quarter 2019. The company witnessed the eighth straight quarter of year-over-year growth for Barbie. In 2019, the brand is likely to continue gaining positive momentum.

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## Reasons To Sell:

▼ **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 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.

▼ **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 third-quarter 2019, advertising and promotion expenses increased 3% from the year-ago quarter.

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## Last Earnings Report

### Mattel Q3 Earnings and Revenue Beat Estimate

Mattel has reported better-than-expected third-quarter 2019 results, wherein both earnings and revenues surpassed the respective Zacks Consensus Estimate. While the bottom line beat the consensus estimates for the fifth straight quarter, the top line surpassed the same for the fourth consecutive quarter.

The company reported adjusted earnings of 26 cents, which surpassed the Zacks Consensus Estimate of 8 cents and improved 44.4% year over year. The company's results in the quarter benefited from robust sales of Dolls category and Barbie.

Quarter Ending **09/2019**

Report Date	<b>Oct 29, 2019</b>
Sales Surprise	<b>4.67%</b>
EPS Surprise	<b>225.00%</b>
Quarterly EPS	<b>0.26</b>
Annual EPS (TTM)	<b>-0.39</b>

### Sales Discussion

Net sales of \$1,481.6 million surpassed the consensus mark of \$1,421 million and improved 3% year over year. On a constant-currency basis, sales grew 4% from the prior-year quarter.

Worldwide gross sales were up 3% year over year (as reported) and increased 4% at constant currency. In North America, gross sales declined 1%, both as reported and at constant currency.

Meanwhile, in the International region, gross sales increased 10% (as reported), driven by growth in Action Figures, Building Sets and Games (including Toy Story 4), Dolls (including Barbie, Polly Pocket and the launch of BTS, partially overshadowed by owned brands), and Vehicles. This improvement was partially offset by a decline in Infant, Toddler and Preschool (including Fisher-Price Core, and Thomas & Friends). Further, gross sales increased 13% 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 improved 10% to \$721.7 million year over year. The metric increased 13% on a constant-currency basis. Further, the Barbie brand witnessed 10% growth as reported and 12% in constant currency, driven by positive POS momentum. Also, gross sales at the Hot Wheels brand increased 25% on a reported basis and 27% in constant currency. However, gross sales were down 3% as reported and 2% in constant currency at the Fisher-Price and Thomas & Friends brands. Gross sales at Other decreased 6% as reported and 4% in constant currency.

### Operating Results

Adjusted gross margin expanded to 46.9% from 43% in the year-ago quarter, buoyed by savings from the Structural Simplification program and lower foreign exchange.

Adjusted other selling and administrative expenses improved 12% to \$366 million. The increase was primarily driven by a higher incentive compensation accrual and recovery of Toys "R" Us bad debt in third-quarter 2018.

## Valuation

Mattel's shares are up up 19.9% over the trailing 12 months. Over the past year, stocks in the Zacks sub-industry is up 14.4%, and the sector is up 21.3%, respectively.

The S&P 500 index is up 24.6% in the past year.

The stock is currently trading at 1.07x forward Price to Sales value, which compares with 5.48x for the Zacks sub-industry, 2.44x for the Zacks sector and 3.51x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.12x and as low as 0.71x, with a 5-year median of 1.27x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$15 price target reflects 1.14x forward Price to Sales value.

The table below shows summary valuation data for MAT.

Valuation Multiples - MAT					
		Stock	Sub-Industry	Sector	S&P 500
P/S F1	Current	1.07	5.48	2.44	3.51
	5-Year High	2.12	6.29	3.28	3.51
	5-Year Low	0.71	3.02	1.21	2.65
	5-Year Median	1.27	4.56	2.61	3.04
EV/EBITDA TTM	Current	18.8	20.53	12.75	11.99
	5-Year High	30.47	20.76	17.77	12.86
	5-Year Low	NA	10.39	11.08	8.48
	5-Year Median	13.22	14.35	12.44	10.67
P/B TTM	Current	10.75	4.02	3.55	4.41
	5-Year High	11.97	6.55	5.04	4.45
	5-Year Low	2.41	2.84	3.13	2.85
	5-Year Median	4.33	4.03	4.29	3.6

As of 01/06/2020

## Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 254)



## Top Peers

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

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	MAT Neutral	X Industry	S&P 500	EA Neutral	HAS Underperform	TTWO Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>F</b>	<b>C</b>	<b>C</b>
Market Cap	4.88 B	9.09 B	23.72 B	31.76 B	13.30 B	14.13 B
# of Analysts	3	5.5	13	14	5	21
Dividend Yield	0.00%	0.00%	1.79%	0.00%	2.58%	0.00%
<b>Value Score</b>	<b>F</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Cash/Price	0.05	0.11	0.04	0.16	0.08	0.16
EV/EBITDA	204.73	23.06	13.90	22.77	23.06	24.23
PEG Ratio	NA	1.80	2.00	1.77	2.07	2.04
Price/Book (P/B)	10.75	4.70	3.34	4.48	7.23	6.48
Price/Cash Flow (P/CF)	NA	22.00	13.67	24.20	18.21	19.80
P/E (F1)	NA	23.32	18.72	23.15	22.78	25.68
Price/Sales (P/S)	1.07	3.50	2.66	6.25	2.84	4.44
Earnings Yield	-0.78%	4.20%	5.31%	4.32%	4.38%	3.90%
Debt/Equity	6.30	0.22	0.72	0.14	0.92	0.05
Cash Flow (\$/share)	-0.35	2.86	6.94	4.50	5.79	6.30
<b>Growth Score</b>	<b>C</b>	-	-	<b>F</b>	<b>B</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	-38.87%	16.17%	10.56%	16.76%	7.52%	33.73%
Proj. EPS Growth (F1/F0)	76.84%	19.53%	7.42%	0.18%	21.43%	-19.47%
Curr. Cash Flow Growth	22.75%	11.18%	14.83%	11.18%	-18.74%	98.75%
Hist. Cash Flow Growth (3-5 yrs)	NA%	17.55%	9.00%	17.13%	3.99%	0.39%
Current Ratio	1.60	1.60	1.23	3.32	2.33	1.48
Debt/Capital	86.30%	17.93%	42.92%	12.20%	47.96%	5.16%
Net Margin	-4.53%	8.37%	11.08%	54.01%	5.59%	11.14%
Return on Equity	-26.03%	13.94%	17.16%	17.54%	30.40%	26.81%
Sales/Assets	0.87	0.80	0.55	0.53	0.90	0.72
Proj. Sales Growth (F1/F0)	0.54%	6.03%	4.15%	3.75%	5.80%	-2.86%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>B</b>
Daily Price Chg	4.38%	0.00%	0.10%	1.47%	0.30%	2.03%
1 Week Price Chg	-2.32%	0.00%	-0.30%	-1.13%	-0.67%	-1.82%
4 Week Price Chg	16.62%	1.48%	2.33%	6.62%	4.63%	3.86%
12 Week Price Chg	22.08%	7.32%	7.02%	15.87%	-12.85%	2.91%
52 Week Price Chg	25.51%	24.85%	24.61%	24.19%	26.50%	19.42%
20 Day Average Volume	3,669,979	84,465	1,589,897	1,683,573	887,972	936,356
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.07%	0.00%	0.00%
(F1) EPS Est 12 week change	-5.00%	-2.49%	-0.56%	0.35%	-14.05%	2.05%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.48%	0.00%	0.00%

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## 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.

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### 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	F
Growth Score	C
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.

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