

## Mattel, Inc. (MAT)

**\$11.48** (As of 08/11/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 05/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: B

## Summary

Shares of Mattel have underperformed the industry so far this year owing to the current crisis. The company reported second-quarter 2020 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. However, both the metrics declined sharply year over year. Decline in worldwide gross sales for Dolls, Infant, Toddler and Preschool and Action Figures, Building Sets and Games impacted the second-quarter results. Nonetheless, the company witnessed gross sales growth in North America. It remains well poised for growth courtesy of strong product line-up, which includes core brands, licensed brands and lucrative product associations. Further, various initiatives like product innovation, promotional initiatives and digital efforts, and increased focus on structural simplification are likely to add to the positives.

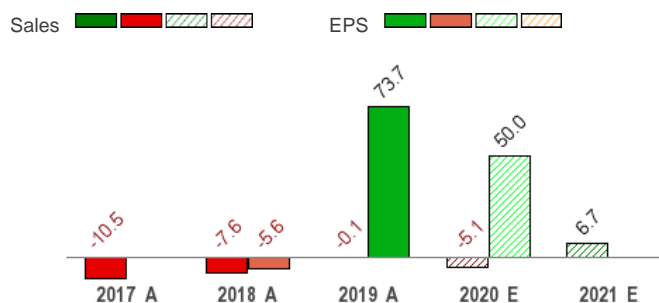
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$14.83 - \$6.53</b>
20 Day Average Volume (sh)	<b>3,578,669</b>
Market Cap	<b>\$4.0 B</b>
YTD Price Change	<b>-15.3%</b>
Beta	<b>1.58</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b><a href="#">Toys - Games - Hobbies</a></b>
Zacks Industry Rank	<b>Top 20% (51 out of 253)</b>

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



Last EPS Surprise	<b>31.6%</b>
Last Sales Surprise	<b>8.7%</b>
EPS F1 Est- 4 week change	<b>53.6%</b>
Expected Report Date	<b>11/03/2020</b>
Earnings ESP	<b>-3.1%</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	635 E	823 E	1,520 E	1,547 E	4,561 E
2020	594 A	732 A	1,458 E	1,492 E	4,276 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	-\$0.25 E	\$0.42 E	\$0.33 E	\$0.19 E
2020	-\$0.56 A	-\$0.26 A	\$0.37 E	\$0.29 E	-\$0.15 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	<b>NA</b>
P/E F1	<b>NA</b>
PEG F1	<b>NA</b>
P/S TTM	<b>0.9</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

## Overview

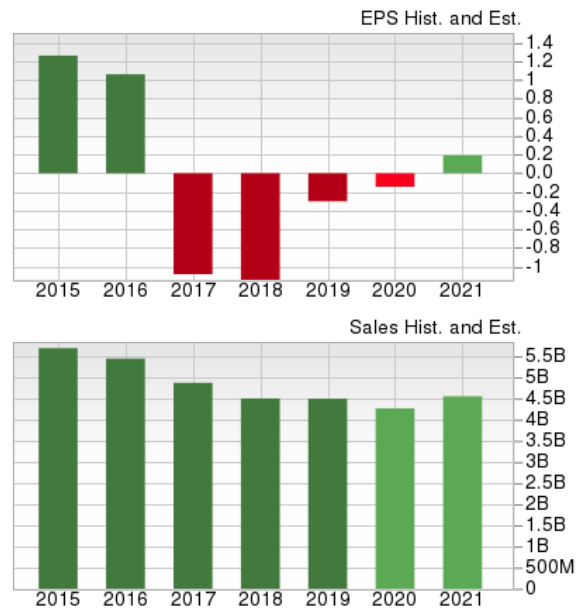
Headquartered in El Segundo, CA, Mattel Inc. is the world's largest manufacturer of toys. The company's products are sold directly to retailers and wholesalers in most European, Latin American and Asian countries as well as in Australia, Canada and New Zealand through the Mattel Girls & Boys Brands, 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.



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## 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 initiatives also helped the company in driving margin growth. In first and second-quarter 2020, adjusted gross margin expanded 450 and 410 basis points to 43.5% and 44%, respectively, driven by savings from the Structural Simplification program and capital light. The company witnessed highest gross margin growth in the first quarter since 2016.

▲ **Sales Growth in North America:** Although the company's total sales declined due to the pandemic, it surpassed the company's expectation. However, the major take away from this quarter is sales growth in North America Barbie and games. E-commerce point of sales increased sharply in North America, which represented nearly one-third of the company's total volume in the region. In North America gross sales increased 3% year over year. This can primarily be attributed to increase in sales in Dolls and Action Figures, Building Sets, Games, and Other (including Star Wars The Child plush and card games, including UNO, partially overshadowed by Toy Story 4). This increase was partially offset by decrease in Vehicles and Infant, Toddler and Preschool.

In second-quarter, the Barbie brand witnessed an improvement of 7% on reported basis and 10% on constant-currency basis. In the doll category, POS was up double digits courtesy of robust demand for Barbie, which improved more than 35%. Per NPD, Barbie gained market share in the dolls category in the second quarter and was the number one toy property in the United States for five straight weeks.

▲ **Enough Liquidity to Tide Over Coronavirus Pandemic:** Mattel, in its second-quarter 2020 earnings release, highlighted that it has enough liquidity to manage the ongoing crisis. As of Jun 30, 2020, the company had \$2.9 billion debt, almost flat sequentially. The company ended the quarter with cash and cash equivalent of \$461.6 million, compared with \$499.4 at the end of first-quarter 2020. 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.

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## Reasons To Sell:

- ▼ **Lower-Than-Expected Q2 Results:** Mattel earnings and revenues declined sharply year over year in second-quarter 2020. The company reported adjusted loss per share of 26 cents, compared with adjusted loss of 25 cents reported in the prior-year quarter. Net sales of \$732 million fell 15% year over year. Decline in worldwide gross sales for Dolls, Infant, Toddler and Preschool and Action Figures, Building Sets and Games impacted the second-quarter results. Meanwhile, worldwide gross sales of Vehicles were also down in the quarter under review.
- ▼ **Dismal Hot Wheels Sales:** The company witnessed dismal Hot Wheels sales in the quarter. In second-quarter 2020, gross sales at the Hot Wheels brand declined 22% on a reported basis and 19% on constant-currency basis. Moreover, Hot Wheels POS were down mid-single digits in the quarter. However, the company announced that it is witnessing improving sales trend for Hot Wheels and is quite confident about the brand's long-term prospect.
- ▼ **Dismal Asia-Pacific Performance:** Due to the coronavirus pandemic, Asia-Pacific exhibited dismal performance in the second quarter. Gross sales declined 29% in the region. Results were impacted by extensive lockdowns in Southeast Asia and India, which was overshadowed by robust performance in Australia.
- ▼ **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 Q2 Earnings & Sales Beat Estimates

Mattel reported second-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. Both the metrics beat the consensus estimate after missing in the preceding quarter.

However, both earnings and revenues declined year over year. Decline in worldwide gross sales for Dolls, Infant, Toddler and Preschool and Action Figures, Building Sets and Games impacted the second-quarter results. Meanwhile, worldwide gross sales of Vehicles were also down in the quarter under review.

The company reported adjusted loss per share of 26 cents, narrower than the Zacks Consensus Estimate of a loss of 38 cents. In the prior-year quarter, the company reported adjusted loss of 25 cents.

Quarter Ending **06/2020**

Report Date	Jul 23, 2020
Sales Surprise	<b>8.69%</b>
EPS Surprise	<b>31.58%</b>
Quarterly EPS	<b>-0.26</b>
Annual EPS (TTM)	<b>-0.45</b>

### Sales Discussion

Net sales of \$732 million surpassed the Zacks Consensus Estimate of \$674 million. However, the top line declined 15% year over year. On a constant-currency basis, sales fell 13% from the prior-year quarter.

In North America, gross sales were up 3%, both on a reported and constant-currency basis. This can primarily be attributed to increase in sales in Dolls and Action Figures, Building Sets, Games, and Other (including Star Wars The Child plush and card games, including UNO, partially overshadowed by Toy Story 4). This increase was partially offset by decrease in Vehicles and Infant, Toddler and Preschool

In the International region, gross sales declined 33% (as reported), owing to decrease in sales in Vehicles (including Hot Wheels and CARS), Infant, Toddler, and Preschool (including Fisher-Price and Thomas & Friends and Fisher-Price Friends), Action Figures, Building Sets, Games, and Other (including Toy Story 4 and MEGA). Moreover, gross sales declined 29% 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 15% to \$814.6 million year over year. The metric declined 13% on a constant-currency basis. However, the Barbie brand witnessed an improvement of 7% on reported basis and 10% on constant-currency basis. Gross sales at the Hot Wheels brand declined 22% on a reported basis and 19% on constant-currency basis. However, gross sales were down 21% on reported basis and 19% on constant-currency basis at the Fisher-Price and Thomas & Friends brands. Gross sales at Other declined 20% on reported basis and 18% on constant-currency basis.

### Operating Results

Adjusted gross margin expanded 410 basis points to 44%, driven by the incremental realized savings from cost savings programs and decline in royalty expense, partially offset by unfavorable impact of lower volumes.

Adjusted other selling and administrative expenses declined 1% to \$287.7 million. The improvement can primarily be attributed to benefits from Structural Simplification savings, partially negated by rise in incentive compensation expense.

### Balance Sheet

As of Jun 30, 2020, the company's cash and equivalents were \$461.6 million compared with \$630 million as of Dec 31, 2019. Total inventories as of the end of the second quarter were down 2.7% year over year to \$702.6 million.

The company's long-term debt was \$2,850.8 million as of Jun 30, 2020, higher than \$2,846.8 million as of Dec 31, 2019. Shareholder's equity was \$157.986.1 million.

## Valuation

Mattel's shares have declined 15.2% in year-to-date period and 0.3% in the trailing 12-month period. Stocks in the Zacks sub-industry is up by 21.9%, but the Zacks Consumer Discretionary sector is down by 8.1% in the year-to-date period. Over the past year, the Zacks sub-industry and sector is up by 36.4% and 4.3%, respectively.

The S&P 500 index is up by 4.2% in the year-to-date period and 15% in the past year.

The stock is currently trading at 0.9X forward 12-month sales, which compares to 5.78X for the Zacks sub-industry, 2.38X for the Zacks sector and 3.67X 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 1.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 0.95X 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	0.9	5.78	2.38	3.67
	5-Year High	2.08	6.16	2.95	3.67
	5-Year Low	0.54	3.5	1.68	2.53
	5-Year Median	1.11	4.81	2.5	3.05
EV/EBITDA TTM	Current	19.09	19.25	11.08	12.66
	5-Year High	33.04	26	17.86	12.84
	5-Year Low	NA	11.2	8.32	8.24
	5-Year Median	14.17	14.98	12.29	10.9
P/B TTM	Current	46.25	4.53	3.25	4.68
	5-Year High	46.98	6.64	4.93	2.83
	5-Year Low	2.41	3.11	2.22	3.74
	5-Year Median	4.79	4.17	4.21	16.36

As of 08/11/2020

## Industry Analysis Zacks Industry Rank: Top 20% (51 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Electronic Arts Inc. (EA)	Outperform	2
Activision Blizzard, Inc (ATVI)	Neutral	1
Callaway Golf Company (ELY)	Neutral	3
Glu Mobile Inc. (GLUU)	Neutral	4
Hasbro, Inc. (HAS)	Neutral	3
JAKKS Pacific, Inc. (JAKK)	Neutral	3
Nintendo Co. (NTDOY)	Neutral	4
TakeTwo 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)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	2
VGM Score	F	-	-	C	D	D
Market Cap	3.98 B	7.38 B	23.61 B	39.19 B	10.79 B	19.11 B
# of Analysts	4	6.5	14	14	7	21
Dividend Yield	0.00%	0.00%	1.69%	0.00%	3.46%	0.00%
Value Score	D	-	-	F	B	F
Cash/Price	0.12	0.14	0.07	0.14	0.10	0.14
EV/EBITDA	22.18	21.23	13.32	20.28	15.12	23.75
PEG Ratio	NA	2.72	2.95	3.72	1.72	5.04
Price/Book (P/B)	46.23	4.40	3.22	5.03	4.08	7.21
Price/Cash Flow (P/CF)	28.80	25.28	12.79	25.28	12.56	29.00
P/E (F1)	NA	24.37	22.02	25.09	23.64	44.00
Price/Sales (P/S)	0.93	3.61	2.57	6.77	2.17	5.65
Earnings Yield	-1.31%	3.98%	4.29%	3.99%	4.23%	2.27%
Debt/Equity	33.09	0.08	0.77	0.05	1.82	0.06
Cash Flow (\$/share)	0.40	2.34	6.94	5.37	6.27	5.76
Growth Score	D	-	-	A	F	A
Hist. EPS Growth (3-5 yrs)	NA%	14.93%	10.41%	14.93%	2.05%	34.56%
Proj. EPS Growth (F1/F0)	51.67%	24.13%	-6.51%	-5.44%	-18.38%	-31.33%
Curr. Cash Flow Growth	-214.17%	-3.32%	5.22%	15.43%	-3.32%	-8.18%
Hist. Cash Flow Growth (3-5 yrs)	-28.91%	6.23%	8.55%	7.26%	5.21%	12.57%
Current Ratio	1.47	2.09	1.34	2.61	1.61	1.72
Debt/Capital	97.07%	12.77%	44.59%	4.85%	64.62%	5.47%
Net Margin	-5.82%	10.40%	10.13%	34.27%	7.58%	13.22%
Return on Equity	-51.02%	18.19%	14.59%	21.32%	18.71%	28.26%
Sales/Assets	0.83	0.73	0.51	0.52	0.57	0.68
Proj. Sales Growth (F1/F0)	-5.07%	1.36%	-1.45%	14.02%	15.13%	-6.07%
Momentum Score	B	-	-	F	F	F
Daily Price Chg	-1.54%	-0.78%	-0.17%	-3.55%	-0.32%	-4.36%
1 Week Price Chg	2.25%	2.25%	2.30%	1.67%	5.48%	6.67%
4 Week Price Chg	9.75%	0.00%	6.41%	-2.04%	5.49%	10.63%
12 Week Price Chg	43.14%	17.49%	15.42%	14.48%	15.82%	17.49%
52 Week Price Chg	-0.26%	27.09%	2.88%	46.96%	-32.28%	31.04%
20 Day Average Volume	3,578,669	512,846	2,007,486	1,955,069	1,126,759	1,432,775
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	53.60%	7.34%	1.84%	9.28%	-5.44%	-1.17%
(F1) EPS Est 12 week change	51.67%	5.20%	2.40%	10.40%	-6.98%	-22.76%
(Q1) EPS Est Mthly Chg	2.75%	-5.17%	0.72%	-140.52%	-2.76%	-7.57%

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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	<b>D</b>
Growth Score	<b>D</b>
Momentum Score	<b>B</b>
VGM Score	<b>F</b>

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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