

## Mattel, Inc. (MAT)

**\$13.25** (As of 02/20/20)

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

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 02/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**1-Strong Buy**

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: C

## Summary

Shares of Mattel have outperformed the industry in the past six months. The outperformance is likely to continue as the company reported fourth-quarter 2019 results, with earnings surpassed the Zacks Consensus Estimate for sixth straight quarter. The company has been benefitting from various initiatives like product innovation, marketing partnerships, promotional initiatives and digital efforts. It is also witnessing robust Barbie sales. Moreover, increased focus on structural simplification and capital light programs are likely to benefit the company going forward. Of late, earnings estimates for 2020 have witnessed upward revisions. The company expects 2020 gross sales to increase in the range of 1-2.5%. However, high costs and stiff competition from an array of alternative modes of entertainment including video games and smartphones pose concerns.

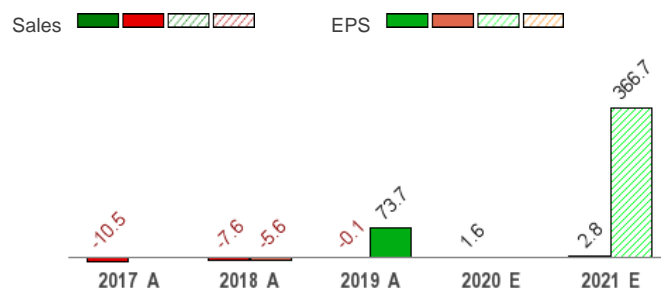
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$15.19 - \$9.06</b>
20 Day Average Volume (sh)	<b>5,674,837</b>
Market Cap	<b>\$4.6 B</b>
YTD Price Change	<b>-2.2%</b>
Beta	<b>1.65</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b><a href="#">Toys - Games - Hobbies</a></b>
Zacks Industry Rank	<b>Bottom 26% (188 out of 255)</b>

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



Last EPS Surprise	<b>225.0%</b>
Last Sales Surprise	<b>-1.0%</b>
EPS F1 Est- 4 week change	<b>150.0%</b>
Expected Report Date	<b>04/23/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>NA</b>
P/E F1	<b>220.8</b>
PEG F1	<b>23.7</b>
P/S TTM	<b>1.0</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	695 E	888 E	1,545 E	1,576 E	4,704 E
2020	661 E	861 E	1,511 E	1,542 E	4,575 E
2019	689 A	860 A	1,482 A	1,474 A	4,505 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.38 E	-\$0.17 E	\$0.44 E	\$0.32 E	\$0.28 E
2020	-\$0.43 E	-\$0.22 E	\$0.42 E	\$0.29 E	\$0.06 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 02/20/2020. The reports text is as of 02/21/2020.

## 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.



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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.

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.

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## 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.
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## 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	Feb 13, 2020
Sales Surprise	-1.01%
EPS Surprise	225.00%
Quarterly EPS	0.11
Annual EPS (TTM)	-0.32

### 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 5.8% over the trailing 12 months. Over the past year, stocks in the Zacks sub-industry is up 25.5%, and the sector is up 11.4%, respectively.

The S&P 500 index is up 20.1% in the past year.

The stock is currently trading at 1X forward 12-month sales, which compares to 5.23X for the Zacks sub-industry, 2.32X for the Zacks sector and 3.56X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.08X and as low as 0.7X, with a 5-year median of 1.23X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$15 price target reflects 1.13x 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	1	5.23	2.32	3.56
	5-Year High	2.08	5.98	3.19	3.56
	5-Year Low	0.7	3.23	1.81	2.54
	5-Year Median	1.23	4.52	2.54	3
EV/EBITDA TTM	Current	18.42	21.13	12.45	12.31
	5-Year High	30.47	21.13	17.67	12.85
	5-Year Low	NA	11.26	10.77	8.47
	5-Year Median	13.44	14.38	12.4	10.72
P/B TTM	Current	9.34	3.85	3.56	4.67
	5-Year High	11.97	6.55	5.04	4.68
	5-Year Low	2.41	3.16	3.13	2.85
	5-Year Median	4.38	4.04	4.26	3.62

As of 02/20/2020

## Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 255)



## Top Peers

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

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	MAT Outperform	X Industry	S&P 500	EA Neutral	HAS Neutral	TTWO Underperform
<b>VGM Score</b>	<b>F</b>	-	-	<b>C</b>	<b>C</b>	<b>F</b>
Market Cap	4.59 B	8.54 B	24.34 B	31.63 B	12.48 B	13.06 B
# of Analysts	5	5.5	13	14	5	21
Dividend Yield	0.00%	0.00%	1.78%	0.00%	2.75%	0.00%
<b>Value Score</b>	<b>F</b>	-	-	<b>D</b>	<b>C</b>	<b>F</b>
Cash/Price	0.13	0.18	0.04	0.18	0.37	0.19
EV/EBITDA	185.50	21.32	14.18	22.08	19.77	21.60
PEG Ratio	23.67	1.96	2.09	1.77	1.33	1.98
Price/Book (P/B)	9.34	4.41	3.30	4.41	4.17	5.44
Price/Cash Flow (P/CF)	NA	22.65	13.49	24.29	18.99	18.28
P/E (F1)	220.83	23.86	19.28	23.11	19.22	23.86
Price/Sales (P/S)	1.02	3.22	2.68	5.87	2.64	4.55
Earnings Yield	0.45%	4.04%	5.17%	4.32%	5.20%	4.20%
Debt/Equity	5.79	0.18	0.70	0.14	1.35	0.06
Cash Flow (\$/share)	-0.35	2.40	7.03	4.50	5.21	6.30
<b>Growth Score</b>	<b>D</b>	-	-	<b>B</b>	<b>D</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	-42.20%	15.28%	10.84%	16.39%	5.80%	29.79%
Proj. EPS Growth (F1/F0)	120.00%	19.31%	7.09%	0.73%	26.08%	-19.97%
Curr. Cash Flow Growth	22.75%	22.75%	6.72%	11.18%	-10.17%	98.75%
Hist. Cash Flow Growth (3-5 yrs)	NA%	13.51%	8.25%	17.13%	1.39%	0.39%
Current Ratio	1.76	1.76	1.22	2.84	5.37	1.64
Debt/Capital	85.27%	15.53%	42.37%	12.09%	57.46%	5.93%
Net Margin	-4.90%	11.42%	11.56%	52.52%	11.03%	11.81%
Return on Equity	-23.30%	14.23%	16.80%	18.86%	25.57%	15.30%
Sales/Assets	0.86	0.75	0.55	0.53	0.77	0.63
Proj. Sales Growth (F1/F0)	1.57%	5.91%	3.90%	3.55%	32.36%	-2.85%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>A</b>	<b>A</b>	<b>D</b>
Daily Price Chg	1.45%	0.00%	0.01%	-0.53%	1.23%	1.40%
1 Week Price Chg	-0.92%	0.00%	1.65%	0.55%	-2.04%	0.74%
4 Week Price Chg	-8.27%	-4.27%	0.36%	-3.77%	-6.26%	-10.80%
12 Week Price Chg	12.19%	-1.50%	4.39%	8.34%	-2.99%	-5.31%
52 Week Price Chg	-5.69%	-5.69%	15.29%	12.74%	14.59%	31.44%
20 Day Average Volume	5,674,837	182,895	1,992,841	2,612,434	1,272,566	2,152,727
(F1) EPS Est 1 week change	257.89%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	150.00%	-0.69%	-0.02%	0.11%	17.58%	-1.39%
(F1) EPS Est 12 week change	157.14%	0.09%	-0.17%	0.86%	7.30%	0.18%
(Q1) EPS Est Mthly Chg	-7.00%	0.00%	-0.48%	4.47%	72.41%	-1.16%

## 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	D
Momentum Score	C
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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