

Mattel

4Q Recap: MAT takes share amidst a soft industry backdrop

Reiterate Rating: BUY | PO: 22.00 USD | Price: 18.81 USD

Barbie growth accelerates in 4Q

Mattel (MAT) reported 4Q EPS of \$0.29 (vs. BofAe \$0.36 and consensus \$0.31). Revenue growth of 15.6% YoY (14% ex. FX) came in below consensus of 16.9%. MAT gained 70bp of share globally for the full year while the global industry declined 7%. Gross margin expanded 571bp to 48.8%, slightly below consensus of 49.0%. SG&A deleveraged 228bp to 39.7% and was higher than consensus of 38.0%. The increase in SG&A was driven by higher incentive compensation. POS was up low-single digits in both 4Q and 2023. North America outperformed with gross billings up 33% YoY vs. International gross billings up 2% ex. FX. American Girl continues to underperform with gross billings down 5%. Worldwide gross billings for dolls ex. FX grew 27% in 4Q YoY (with North America at 52% and outperforming International at 19% ex. FX), driven by growth in Barbie, Disney Princess and Disney Frozen, and Monster High. Hot Wheels gross billings ex. FX grew 16% in 4Q23, but Infant, Toddler, and Preschool and Action Figures, Building sets, and Other were softer, up only 7% and 1%, respectively.

Expect outperformance and share gain to continue

MAT provided its outlook for 2024 and expects 48.5-49.0% gross margin, \$1.35-\$1.45 adjusted EPS, and \$975-\$1,025mn adjusted EBITDA. The company expects net sales to be comparable ex. FX. Mgmt. expects MAT will outpace the industry and gain share in 2024. MAT expects the toy industry to decline in 2024 but at a lesser rate than 2023. The decline will be driven by a lighter toyetic theatrical film slate and the shift in consumer spending patterns towards experiences and services. MAT highlighted Barbie's 65th anniversary and innovation in new segments and play patterns for 2024. MAT concluded the 2021-23 Optimizing for Growth (OFG) program with total gross savings of \$343mn and now targets \$200mn total gross savings for 2024-26.

IP-driven strategy will fuel future growth

Reflecting 2024 guidance and more modest expectations for industry growth, we're lowering our 2024 estimate from \$1.47 to \$1.40 and lowering our PO from \$23 to \$22 still based on 15x '24 P/E. Although MAT faces tough compares this year from the Barbie movie, we believe in the company's ability to grow its IP-driven toy business and continue expanding its entertainment offering. Reiterate Buy on positive risk reward.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.25	1.23	1.40	1.54	1.68
GAAP EPS	1.10	0.60	1.40	1.54	1.68
EPS Change (YoY)	-5.3%	-1.6%	13.8%	10.0%	9.1%
Consensus EPS (Bloomberg)			1.37	1.51	1.72
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	15.0x	15.3x	13.4x	12.2x	11.2x
GAAP P/E	17.1x	31.4x	13.4x	12.2x	11.2x
EV / EBITDA*	8.5x	8.7x	8.2x	7.9x	7.6x
Free Cash Flow Yield*	3.9%	10.7%	7.7%	9.2%	9.6%

* For full definitions of *IQmethod*SM measures, see page 4.

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	23.00	22.00
2024E Rev (m)	5,488.7	5,439.6
2025E Rev (m)	5,594.4	5,540.3
2026E Rev (m)	NA	5,643.1
2024E EPS	1.50	1.40
2025E EPS	1.64	1.54
2026E EPS	NA	1.68

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Stock Data

Price	18.81 USD
Price Objective	22.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-9
52-Week Range	15.36 USD - 22.64 USD
Mkt Val (mn) / Shares Out (mn)	6,644 USD / 353.2
Free Float	99.2%
Average Daily Value (mn)	49.30 USD
BofA Ticker / Exchange	MAT / NAS
Bloomberg / Reuters	MAT US / MAT.OQ
ROE (2024E)	21.4%
Net Dbt to Eqty (Dec-2023A)	49.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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iQprofileSM Mattel

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.8%	10.2%	10.8%	10.9%	10.9%
Return on Equity	24.8%	20.8%	21.4%	20.7%	19.9%
Operating Margin	12.7%	11.8%	13.1%	13.6%	14.0%
Free Cash Flow	256	710	513	611	641

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	2.0x	1.5x	1.5x	1.5x
Asset Replacement Ratio	1.0x	0.9x	1.1x	0.9x	0.9x
Tax Rate	24.1%	23.0%	23.5%	23.5%	23.5%
Net Debt-to-Equity Ratio	76.1%	49.7%	40.5%	28.7%	17.6%
Interest Cover	5.2x	5.2x	5.7x	6.0x	6.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,435	5,441	5,440	5,540	5,643
% Change	-0.4%	0.1%	0%	1.9%	1.9%
Gross Profit	2,492	2,583	2,653	2,716	2,780
% Change	-5.2%	3.6%	2.7%	2.4%	2.4%
EBITDA	968	948	997	1,035	1,074
% Change	-3.8%	-2.1%	5.2%	3.8%	3.8%
Net Interest & Other Income	(130)	(96)	(110)	(110)	(110)
Net Income (Adjusted)	450	438	483	512	542
% Change	-3.5%	-2.6%	10.1%	6.0%	5.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	424	420	463	492	522
Depreciation & Amortization	182	177	177	177	177
Change in Working Capital	(348)	122	(45)	(8)	(8)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	184	151	105	105	105
Capital Expenditure	(187)	(160)	(188)	(155)	(155)
Free Cash Flow	256	710	513	611	641
% Change	-23.3%	177.0%	-27.8%	19.1%	4.9%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(250)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	761	1,261	1,375	1,586	1,827
Trade Receivables	860	1,082	1,103	1,123	1,144
Other Current Assets	1,108	779	772	784	796
Property, Plant & Equipment	469	466	514	529	545
Other Non-Current Assets	2,980	2,848	2,848	2,848	2,848
Total Assets	6,178	6,436	6,612	6,870	7,159
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,188	1,343	1,312	1,336	1,360
Long-Term Debt	2,326	2,330	2,330	2,330	2,330
Other Non-Current Liabilities	608	614	614	614	614
Total Liabilities	4,121	4,287	4,256	4,280	4,304
Total Equity	2,056	2,149	2,355	2,590	2,855
Total Equity & Liabilities	6,178	6,436	6,612	6,870	7,159

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Retailing-Hardlines

Company Description

Mattel is a global company that manufactures, markets and sells toys, games and other products. Mattel's product categories include: (1) Dolls including Barbie, Monster High, American Girl and Polly Pocket, (2) Infant, Toddler, and Preschool including Fisher-Price and Thomas & Friends, (3) Vehicles including Hot Wheels and Matchbox and (4) Action Figures, Building Sets, Games, and Other including Masters of the Universe, MEGA and UNO.

Investment Rationale

Mattel is a successful turnaround story that we believe the market has not yet fully rewarded. We expect multiple expansion as the company continues to grow by leveraging its IP through content to drive toy and game sales.

Stock Data

Average Daily Volume

2,621,206

Quarterly Earnings Estimates

	2023	2024
Q1	-0.24A	-0.16E
Q2	0.10A	0.19E
Q3	1.08A	1.07E
Q4	0.29A	0.30E

Price objective basis & risk

Mattel (MAT)

Our \$22 PO is based on 15x '24E P/E, a premium to the toy company comp set average given Mattel's higher growth prospects driven by its strategy to leverage its IP through content to drive toy and game sales.

Upside risks to our PO are a strong reception to Mattel's content lineup, better-than-expected performance of Mattel's Disney Princess license, a continued rebound in American Girl and stronger margins on lower input costs.

Downside risks to our PO are a prolonged downturn in consumer spending, a lower birth rate negatively impacting toy sales, share losses to video games or other competing products, weak fan engagement with Mattel's owned and licensed brands, poor performance of a key customer and margin pressure on higher input costs.

Analyst Certification

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US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L. Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc.	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L. Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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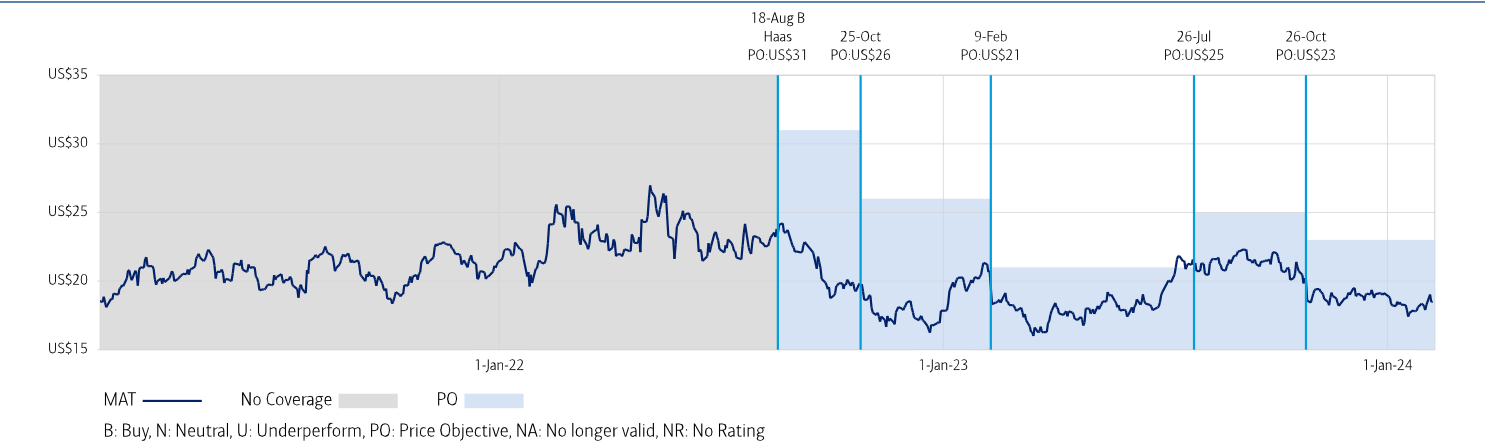
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Mattel (MAT) Price Chart



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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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