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As of March 31, 2020, Mattel represented 6.2% of the Longleaf Partners Fund and 6.6% of the Longleaf Partners Small-Cap Fund.

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| Gwin Myerberg: | 00:00:06 | Hello and welcome to The Price-to-Value Podcast with Southeastern Asset Management, where our Global Investment Team discusses the topics that are most top of mind for our clients from a Business, People, Price point of view. We at Southeastern are long-term, concentrated, engaged value investors, and we seek to own high-quality businesses, run by capable people at a discounted price-to-intrinsic value (or P/V). |
| Gwin Myerberg: | 00:00:26 | I'm Gwin Myerberg, Global Head of Client Relations and Communications. On today's podcast, Senior Research Analyst, Lowry Howell, and CEO and Head of Research, Ross Glotzbach, interview Ynon Kreiz, CEO of Mattel, which we own in our US-focused portfolios. We hope that you enjoy the conversation. |
| Lowry Howell: | 00:00:46 | We would like to welcome Ynon Kreiz, CEO of Mattel to the Southeastern Price-to-Value Podcast. We've long admired Mattel's brand and its number one position in |

dolls, vehicles and infant toys. In our view, Mattel also possesses an extremely valuable portfolio of children's intellectual property [IP] that has been unmined. We've previously seen the value and stability of children's IP through former Southeastern investments. We believe Mattel offers a combination of a great toy company with material upside from IP monetization.

- Lowry Howell: 00:01:14 At Southeastern, we've followed Mattel for decades, and we began purchasing the shares in late 2017 in the low to mid-teens after the stock price fell from a peak of around \$50 per share. After two years under Ynon's leadership, the operations of the toy business have vastly improved, and substantial underlying progress has also been made on the IP side that's yet to show up in the profit and loss [P&L]. We're grateful to have Ynon as a partner, and, Ynon, we thank you for being here today to talk about Mattel.
- Ynon Kreiz: 00:01:55 Thank you. It's great to be here, and I appreciate the opportunity to talk today.
- Ross Glotzbach: 00:02:01 That was well said, Lowry. I want to jump in for a little bit before I go into listening mode because Lowry's our expert, and he's got the questions. It feels like a long time ago since we saw you at Toy Fair in February. I want to personally thank you for two things since then. First, as the parent of two young children: thank you and the whole Mattel team for making products that are bringing some joy to our household these days. We've had some pretty elaborate Hot Wheels tracks and many family UNO games.
- Ross Glotzbach: 00:02:38 And secondly as an investor: thank you for getting Mattel to a better place, to make it through this. Even if some of the initial market shifts haven't yet gone our way, that's out of your control. But the things within your control, like the incredibly strong gross margin numbers in the first quarter, show that Mattel will be a stronger company in the years to come. Lowry, please take it away from here.
- Ynon Kreiz: 00:03:05 Thank you for your comment.

Lowry Howell: 00:03:06 Thank you, Ross. To start, we'd love to learn a little bit more about your story, personally. We know you were born and raised in Israel, but how did you make your way to the US, and how did you go from a windsurfing instructor to media entrepreneur? I think a lot of people are interested in this, too.

Ynon Kreiz: 00:03:27 As you said, I grew up in Israel, where I was born and raised. After high school, I went to the military for three years, and after that I followed my passion of wind surfing and traveled for almost two years in different windy spots around the world, teaching wind surfing and just doing what I really wanted to do at that time. I always had a plan to come back to the real world and follow my other passion, which was to find my way into the entertainment industry, in the broad sense of the words. I always knew that I would end up in one way or another in the US.

Ynon Kreiz: 00:04:22 At the time, my plan was to come to study in America, which I ended up doing for my MBA at UCLA. That was really my entry point into the corporate world in general, and what at the time started to shape the Entertainment industry in different forms. Shortly after I finished business school, I joined Saban Entertainment and, after two years in Los Angeles, I moved to the UK to launch Fox Kids Europe, which was a part of a joint venture between Saban and News Corp at the time.

Ynon Kreiz: 00:05:06 We leveraged the Saban library and the Fox Kids brand to launch a business that ended up being one of the fastest growing Pay TV channels and the most widely distributed kids channels in Europe. The approach was to set up local channels in local languages that were catering for audiences in over 50 countries across Europe and the Middle East. That, in a way, was my first role in a real job, not that long after I was teaching windsurfing in the Caribbean.

Ynon Kreiz: 00:05:51 It was a great journey, but something I always wanted to do. So for me, it wasn't a surprise, although in hindsight, I know it looks a bit like a big distance between the two jobs that I had. I did get to the age of

30, and my longest work experience was one year as a windsurfing instructor. I always say that I actually retired before I started to work. However, when I did start to work, I was all in.

- Lowry Howell: 00:06:31 Such a fascinating path that you've taken. If we fast forward up until the last few years, you joined as a Mattel director in June 2017, and soon after, in April of 2018, you signed on as CEO. What did you see from the inside as a director that made you want to take the CEO position?
- Ynon Kreiz: 00:06:58 My admiration for Mattel started even before I joined the board. Of course, everybody knows Mattel, and being in the kids industry for the years that I was, I always revered the company and looked at it from afar. But I followed the path of the company and could tell that it was losing some ground and some market share in recent years.
- Ynon Kreiz: 00:07:26 I was then offered the opportunity to join the board, which I thought would be very interesting to be part of, what I believe should be a pretty transformative transition to another model. Although at the time, I wasn't quite clear how it should be because I was on the outside. As soon as I came onto the board, it became very clear to me that we were too much of a toy manufacturing company with a strong emphasis on *manufacturing*.
- Ynon Kreiz: 00:08:02 We spent large amounts of capital on investing in factories, hardware, and machinery automation. We did not have much focus and emphasis on what I believe was the core strength and key asset of the company, which is our intellectual property. Shortly after I joined the board, I shared with my fellow directors my approach and my thesis. They offered me the opportunity to become Chairman of the company, which was announced and was the plan to do by the annual meeting in May. Shortly before that happened, the prior CEO resigned, and the board asked me to step up and become CEO as well as Chairman.

Ynon Kreiz: 00:09:02 By that point, I had a very strong conviction about the path forward and the opportunity. You don't know everything because, when you're on the board, you see things obviously, but not in the great detail of the day-to-day. I knew that there would be opportunities and there are things we can change and really put the company back on a growth trajectory, and of course restore profitability and over time do great things with our IP. A few weeks before that happened, that was not in the cards, but as soon as it did happen, I was very excited to take on the opportunity and believe that we can do great things for the company.

Lowry Howell: 00:10:01 As we ramped up our work on the toy industry, one surprise to us and, frankly, many of the people on our team, is that despite technology, toys have consistently been a growth industry. We also learned that toys and selling toys is very different now than in the past. When you take your experience across Fox Kids Europe, and Endemol and Maker Studios and other stops you've made, what have those taught you that you brought to Mattel to apply to your role in transforming the company?

Ynon Kreiz: 00:10:40 It's a combination of things. All of my prior roles and opportunities were around commercializing strong brands and realizing value from branded content. This is at the headlines, but I would also say that all of my prior jobs were very operational. My expertise is not so much in the creative side and writing scripts and producing movies. I do know how to work with creative people, how to amplify creativity, and how to run a complex, operational enterprise that has a global footprint.

Ynon Kreiz: 00:11:42 In the case of Fox Kids Europe, it was mostly European, but it's really the ability to find the right fit and identify the right audience and demographics and be able to apply your commercial model in every region where you operate. A lot of those disciplines in Mattel are obviously very important. The company has a complex business model. In some ways you can say it's very simple, you make toys and you sell them.

- Ynon Kreiz: 00:12:18 But obviously there is a lot more to it in the day-to-day, in running the company. The way we designed our strategy is to follow a model where we first and foremost look to make the company high-performing, which is really about running the company well. This is the bread and butter, basic execution of the day-to-day and running the company well. If we do that, if we can run the toy side of the company well, there's tremendous value we can capture by restoring profitability and growing the top line.
- Ynon Kreiz: 00:13:11 I'm not talking about anything out of this world, it's very much in keeping with some of the other companies that work in the field. I believe we can achieve a lot if we run the company well. In addition to that, really as an extension, this is not instead or not a shift, but an extension of running the company well, we believe there are transformative opportunities if we can capture value from our IP.
- Ynon Kreiz: 00:13:49 This is more a mid- to long-term of course, but the opportunity in success can be meaningful. There are also examples for that. Not so much necessarily in our direct space, but companies that own strong brands that are able to extend them to other verticals and be able to capture value from our IP, they exist, all the way from Disney to other companies have done that really well.
- Ynon Kreiz: 00:14:25 The path is, I wouldn't say simple, but it's very clear and very focused. I think I shared with you before, that one of the first things that the board did, there used to be a plan for the company, it was three inches thick, a very large business plan that was not easy to digest. What we did was put together a strategy that is presented on one page. If everybody understands, everybody can focus on it, and every single employee in the company knows exactly what he/she is supposed to do, in support of the overall strategy for the company.
- Lowry Howell: 00:15:12 In just a minute, I want to drill down some more on some of the thoughts that you just laid out. First, I think a lot of our listeners have interest in some of your

thoughts on the current environment, so I'd like to ask you a couple questions there. All of us are working from home right now. How is Mattel, in such a creative-type culture, continuing to create and innovate in a work from home environment?

Ynon Kreiz: 00:15:43 We pivoted very quickly as an enterprise. Working in 35 countries, people already did a remote work format. I have to say, that looking back, although we're still in it, but looking back to the actual moment when it happened, I don't think we dropped many balls, if any. It was quite encouraging to see how quickly everybody responded.

Ynon Kreiz: 00:16:17 The back-office function stepped up, rose to the occasion, and really facilitated the transition on a dime. The organization continued to operate and function. Of course, there was a period of adjustment, but all in all, everybody stepped up and really did incredible work. In thinking about the three main legs of the toy side of the company between supply chain, design and development, the creative part, the brands part and commercial, everybody really continued to do what they're supposed to do. We tightened the communication a lot.

Ynon Kreiz: 00:17:12 Up until recently, the team, including myself, met twice a day, morning and afternoon, where all the key leaders updated the others of what is developing and how things are changing. We stayed in sync throughout the 8-10 weeks in that way of two meetings a day. We recently reduced it. Now we're meeting every four or five days a week. When I say every day, by the way, it was also weekends. Now we reduced the pace, because it's not that things are a lot easier, but at least we're in a better cadence, and we've seen things start to improve.

Ynon Kreiz: 00:18:09 There's less immediate decisions that we have to make. We still remain very watchful and very tied to the world around us. As it relates to the creative work, that's where we, as you know, always look to be very proactive. We double down on creativity. This is under Richard Dickson, who's doing excellent work and his

team as well. Everybody's very focused on innovation, creativity in responding to the new environment, with new products and new applications and new marketing campaigns and different types of executions that are concurrent with the change to the world around us.

- Ynon Kreiz: 00:19:09 I don't think we missed a lot, if any, opportunities. The challenge, I would say, is more in the areas that we don't control, such as retail outlets that we're closing or areas that we had to suspend work in the distribution centers and some of the factories that are governed by local authorities where we have to comply with the local regulations. In terms of the areas that we control, the things that we can manage our way through, I'm very proud of the work that was done, and I don't think we could have done anything better.
- Lowry Howell: 00:19:57 That's super helpful. In a previous answer you had mentioned really refining the strategy where everyone could truly understand it. As we go through COVID and changes that are occurring, is there anything that you think might need to be modified in your strategic plan resulting from COVID and what comes out of this long-term?
- Ynon Kreiz: 00:20:23 We entered 2020 with a lot of momentum, as you know. 2019 was a key juncture in our transformation. We achieved everything we set out to do and then some. As you know, we grew the top line for the first time after six years of decline. We were cash flow positive for the first time in three years. Performance was strong.
- Ynon Kreiz: 00:20:58 We remained number one and grew market share in key parts of the business. Even if you take a perspective of looking back from 2017, this was the year just before I joined. We went from \$126 million earnings before interest, taxes, depreciation, and amortization [EBITDA] in 2017 to \$200 million adjusted EBITDA in 2018 to \$453 million adjusted EBITDA in 2019 and gave guidance of \$575-\$600 million EBITDA in 2020. We would not have said that if we didn't think we can *at least* meet it, if not exceed it. We had a lot of momentum entering the year.

Ynon Kreiz: 00:21:37 We also outperformed, or over exceeded, the pretty lofty targets of the structure simplification savings. As you know, it was \$650 million, and we ended 2019 at \$875 million. With the additional savings we are targeting this year, we will exceed a billion dollars of savings, structural savings, relative to the start of 2018. We've done a lot along the way. In many ways, you can say it's good that we did all of it before COVID hit. We really repositioned the company for growth.

Ynon Kreiz: 00:22:25 If not for COVID, we would have been continuing the trajectory in 2020. Now, the fundamentals didn't change. The company is a lot stronger, is high performing, better structured, stronger strategy. We have executed consistently now for a few quarters in a row. I wouldn't say we're going to change the strategy. Although 2020 will be an aberration, this year will be an aberration not just for Mattel but for the entire world, the economy. The fundamentals are strong, and we expect to return to our growth momentum at the high level on the other side of COVID.

Ynon Kreiz: 00:23:16 I hope that that all adds up. Of course, everyone is being impacted by COVID. We want to continue to adjust and respond at a local level, at the daily level of how we manage a company during these days, remote work, and other changes. How do we find ways to continue to leverage technology to optimize the way we operate, how we share information, and how we collaborate remotely? But directionally, we're still looking to restore profitability as we gain top line growth.

Ynon Kreiz: 00:24:03 These are still the two key priorities that we are focused on in the short- and mid-term. Then the mid- to long-term, the priority is to capture value from our IP, which we have laid the groundwork to achieve. I would say, one thing that you will see us talking more about, is the fifth pillar on our strategy page, which is our online retail and E-Commerce capabilities, which we are looking to emphasize more and focus on more because everything accelerates as it relates to online shopping. You will see us be more proactive, you'll hear us talk

more about it and how we look to leverage some of our expertise in the field.

Lowry Howell: 00:24:58 You mentioned the pause that everyone has taken during COVID. The toy industry has typically been pretty resilient during recessions. We did see a little bit of a shift in category demand to outdoor and games and puzzles in the first quarter. As you look at the industry and Mattel's position, do you still hold the belief in Mattel's resiliency as this current environment starts to fade and work through?

Ynon Kreiz: 00:25:29 Absolutely. Yes. There was a category shift, as you noted, to toys that are more centered around multiple participation, time consuming activities and backyard play. In that regard, we got the wrong end of the stick for the early part of COVID. But we're already seeing that the trend is reversing or coming back to the normal play patterns. A lot of this information is publicly available or known.

Ynon Kreiz: 00:26:10 In terms of point of sale, [POS] you see a very strong growth in dolls and some preschool, which is where we have global leaders. We do expect over time the industry to return to its normal consumption patterns, and we're already seeing it through our own research and the data that we handle ourselves internally. Once restored, we do expect to continue to perform more in line with the momentum we had entering 2020.

Lowry Howell: 00:26:45 Before we get to talking a little bit more about the brands and the long-term strategy, is there anything that you'd like to highlight that Mattel is doing as a corporate citizen during this time to help?

Ynon Kreiz: 00:26:58 We've done a lot in this area. We do see ourselves, and take our position responsibly, as a leading global citizen. We do it across many parts of the company. We talked a lot about sustainability before, but what we did do specifically for COVID is to support communities through products that are dedicated for the current times. We collaborated with different charitable organizations, non-profit organizations, communities to

support families' needs with toys, with some philanthropy and also put more focus on celebrating the current day heroes, the frontline heroes that do all the hard work, and we believe deserve to be acknowledged. All the way from drivers, delivery people, people who work at the supermarket and people that risk their lives to ensure that we can continue with our day-to-day safety.

Ynon Kreiz: 00:28:04 We've also been active in launching special applications that offer services for parents and caregivers. This is not necessarily a commercial initiative, although some of it will actually continue to exist and operate beyond COVID, but the priority was really to leverage our resources and capabilities to support communities.

Ynon Kreiz: 00:28:55 The last part also that is worth mentioning is that we participated in the manufacturing and production of masks and personal protective equipment. We committed to deliver 500,000 face shields and masks for our frontline workers and are working in collaboration with hospitals around the country and in other parts of the world. We do what we can. A lot of good people and good companies participate in the efforts. We believe we can actually make a difference both in contribution in terms of the product and resources, but also in raising awareness and putting more emphasis on key areas that people need to be aware of and be mindful of.

Lowry Howell: 00:29:56 Thanks for sharing that. That's all great stuff. Before talking about the toy brands and other opportunities to grow, a major focus of your first two years has been strengthening the creation platform, the toy production footprint, right-sizing the cost structure. How far are we on this journey? Are we close to finished with that part? How has it positioned Mattel for the next chapter?

Ynon Kreiz: 00:30:27 We believe we are in an excellent position now. I would say that the hard work in restructuring the company is behind us. It's not to say that we will not continue to optimize and improve the way we operate. This is something that we will always continue to do. The

resounding success of structural simplification has been key. You see it in the numbers, you see it in the margins, you saw it with our free cash flow last year.

Ynon Kreiz: 00:31:05 Even achieving meaningful growth in our gross margin in the first quarter that we just announced, in spite of the revenue decline, is another example for what structural simplification did to the company. We're now putting more focus and looking to execute on the capital-light model. There, too, we're making meaningful progress. We already announced \$65 million of savings that we've identified. We put out a target that was pretty lofty to reduce our SKU count by the end of the year by 30%.

Ynon Kreiz: 00:31:51 This is something that the company was never able to do. We've managed to achieve it by April, eight months ahead of schedule. You can expect that we will exceed that target for the year. There are many other things that we do that don't get to be announced or that people don't really fully appreciate because it's behind the scenes or made of a lot of small actions. But together they add up and combine to change the way we operate, how we run the company day-to-day, and of course, will have direct impact on our bottom line.

Ynon Kreiz: 00:32:36 That's worked and, for the most part, is well on its way. Actions regarding cost saving is behind us. There is more to come but not in that level of course, \$875 million in less than two years. The attention now is about growth. Recognizing that 2020 is an aberration, we absolutely believe and feel confident about our ability to return the company to growth. There's a very specific and clear plan by product category and by region. We believe given the strength of our brands, and obviously the quality of our teams and market standing, we have what it takes to do great work and achieve growth.

Ynon Kreiz: 00:33:36 Restoring profitability and regaining top line growth is still a key priority, and we're tracking very well on both of these key objectives. We're also making very good progress on capturing value from our IP. We've made

several announcements of films, television projects and other activities that we're looking to pursue. Those are in adjacent verticals to what we do today, all driven by big brands and big franchises. There is going to be some impact because of COVID on the production timeline and the release schedules, which affected the entire film industry and the television industry for that matter.

Ynon Kreiz: 00:34:39 We at least made progress on the development side, the creative side, working scripts, working new projects, or related to our franchises. We feel that it was actually a good period to focus on that side of the work, and we have done a lot there. We're very excited and still remain very positive and optimistic about the opportunities we have down the road in terms of capturing value from our IP.

Lowry Howell: 00:35:11 Drilling down on the major brands a little bit, we know you're a strong leader in dolls, vehicles and infant. Looking at dolls, and Barbie as the largest brand, until the first quarter of this year, growth has been impressive even in the face of Frozen 2 competition. What is it about the Barbie brand and the operating team behind it that have been able to foster this growth?

Ynon Kreiz: 00:35:36 We're so proud of the performance of Barbie and the work of the team behind Barbie. It is really exemplary, and in many ways it presents the new Mattel. It's about, how do you take a brand and make it count, make it relevant, make it contemporary and touch people's hearts. Barbie is so much more than a toy. Barbie at this point is a cultural phenomenon, and the consumers have a very strong emotional connection with our brands. Consumers, or girls, or Barbie fans don't go to the store and say, "I would like to buy an 11-and-a-half-inch doll."

Ynon Kreiz: 00:36:34 Or American Girls fans don't say, "I would like to go and buy an 18-inch doll." They say, "I want to buy American Girl," or "I want to buy Barbie." They don't say, "I want to buy a die-cast car." They say, "I would like to buy Hot

Wheels." We believe in making that connection, and this has been key to Barbie's success and how Barbie became part of the day-to-day culture.

- Ynon Kreiz: 00:37:15 The effort behind Barbie promoting girls to reach their full potential is not a marketing slogan. This is the ethos of Barbie, and this is the work that they do every day. This is really the framework of how we run the brand, how we manage the brand, how we think about marketing and how we innovate around the product. Of course, we are a commercial enterprise, and we're looking to sell product and make a profit. In this day and age, you cannot be successful if you're not authentic and if you don't have a clear mission and a clear purpose that define your product and your relationship with the consumers.
- Ynon Kreiz: 00:37:56 You will see more of that; you will see how other brands also evolve in the same direction. Every one of our key brands has a purpose or a mission or a way to connect with the consumer. That is really an important competitive advantage that separates Mattel from the rest of the industry.
- Lowry Howell: 00:38:20 I want to head to IP in just a minute, but before then, Fisher-Price. You've been really working to get that business back to a growth engine, and we'd be interested in learning a little bit more about what are the most important changes that you've made to engage infants and draw parents to the brand?
- Ynon Kreiz: 00:38:40 Yeah, Fisher-Price is one of the greatest brands of the industry. As you know, it's over 90 years old. It's actually older than Mattel. It has a multigenerational connection not just with the kids and not just with the parents, but also with the grandparents. In my office I have a toy that was made the year my mother was born, in 1938, and it still works like new.
- Ynon Kreiz: 00:39:19 This brand is so strong and so powerful and has this very special connection with parents, and yet it had a challenging period up until a few years ago, and it's still in turnaround mode. We've done a lot in the last few

years to reposition it. It does take time, but we do see already early signs of momentum. The change was really comprehensive. It started with new leadership, product innovation, marketing, really brand positioning, and how we talk to the millennial parents.

Ynon Kreiz: 00:40:03 Up until recently, we haven't made a new product introduction in several years. The way we were marketing products was the way we used to do it for many years. There was not enough evolution in product innovation and branding the dialogue we have with the parents and how we really think holistically about Fisher-Price as a wholesome offering. Ages and stages in terms of starting prenatal all the way to the age of five, you can still stay relevant and current. A lot of efforts on innovation, leveraging some technology but not over-rotating to technology to make sure that the play system is still relevant and real and has value really all played very well.

Ynon Kreiz: 00:41:01 We saw the early signs of a turn in 2019. We talked about it, we presented it at Toy Fair. There are still some areas that we're working through, especially in the categories where we're driven by licensed brands, licensed portfolios that didn't perform well. This is where we partner with other IP around Fisher-Price products that were just not performing as well. We were going through a period of purging some of those situations, and that meant reducing revenue, but it was done in order to improve profitability and overall tighten the offering holistically.

Ynon Kreiz: 00:41:54 Fisher-Price's core, which is by far the lion's share of the category, did perform well in 2019, and if not for foreign currency, it would have shown growth. We're still very bullish, very positive and very excited about Fisher-Price and believe it will come back to its strong days and be a growth engine for Mattel.

Lowry Howell: 00:42:22 Before we leave brands, I think everyone realizes how strong Hot Wheels has been, and that's been a very positive story, too, like Barbie. As we look at other non-Mattel power brands, what's the most overlooked

brand in your opinion that's not one of your power brands that you would love to highlight?

- Ynon Kreiz: 00:42:46 The one that has a lot of buzz and a lot of excitement around is Masters of the Universe, which has a very strong built-in and current fan base. The few announcements that we made recently, especially around the two animated series that we have agreed with Netflix to launch have not launched yet. That got a lot of attention. This one is not unknown because of the built-in fan base, but it is one where there's a lot of potential around.
- Ynon Kreiz: 00:43:32 I would not stop there. I would tell you that we're now mining the catalog and seeing lots of opportunities. We believe and we say often that we own one of the strongest catalogs of children and family entertainment franchises in the world. You have Disney that owns very strong brands and have done tremendous work around commercializing the brands and extending to many verticals and becoming what it is today.
- Ynon Kreiz: 00:44:08 Next to Disney, I believe we are in a very strong position when it comes to ownership of such a strong catalog of generational, timeless, iconic franchises across so many genres and aiming and catering for all demographics. In many cases, it still feels very relevant for parents as well. Without going into giving more details, you asked for one, I said Masters of the Universe, but there are more brands that have a lot of potential, and some of them are coming up in conversations or opportunities developing with filmmakers that can go and make any movie they want.
- Ynon Kreiz: 00:45:02 Yet they're excited and looking to participate and to partner with us and some of our IP. In many cases, it's brands that have been dormant for decades that we haven't commercialized in decades, but still have very strong resonance and potential to become a lot bigger than what they do today.
- Lowry Howell: 00:45:23 You've mentioned the IP and the potential there, and the movies, too. It seems like there's actually a

misperception by some that IP monetization is just signing deals for feature films. Can you expand on other IP monetization opportunities that are as important or even more important than motion pictures?

Ynon Kreiz: 00:45:50 You're right. Movies are interesting and people get excited by that. It gets a lot of headlines, but there's a lot of potential around other verticals, such as television projects, which have a different cadence. It's more of the drumbeat of content rather than one big global event. A successful television series can be highly valuable. We're talking about consumer product and merchandise. This is not an extension of your toy business, but other areas, and Disney generates billions of dollars out of consumer product and merchandise. Nothing to do with the movies or television or other content expressions.

Ynon Kreiz: 00:46:35 There's music and games. Not board games or card games, but video games in different formats that have a lot of opportunities. Outdoor activities, live shows and many other brand extensions where in some cases are actually bigger than the toy industry. Historically, we used to think about these opportunities as marketing and promotional areas that they noted to sell more toys, rather than thinking of these verticals as highly acquitted opportunities in and of themselves.

Ynon Kreiz: 00:47:14 In many cases, there are companies that just do content or games or just do outdoor events or musicals or focus solely on consumer product and merchandise and are very successful, very profitable. Content today, given the effectively unlimited shelf space and demand via different streaming platforms in the world of unlimited supply, big brands, big franchises are more important than ever.

Ynon Kreiz: 00:47:58 We believe that the opportunities for Mattel to step in right now and leverage our brands, in addition to what we do in the toy aisles, can be very meaningful. The analogy that we talk about and is worth noting is the analogy to what you can create with your IP is what Disney did with Marvel. Just to be a comic book

publisher that was on the verge of bankruptcy was available, and everybody looked at it, but nobody quite knew what to do with it until it fell into the right hands. In the case of Disney, obviously they did start with the movies, but Disney extended it to many other verticals very successfully.

Ynon Kreiz: 00:48:50 We're not calling it an example, but we are calling it an analogy in terms of the opportunities, the things that we can do with our brands. In our case, while we're not pursuing these opportunities solely to sell more toys, in success, we would also sell a lot of toys. Each of these opportunities has to be successful in their own right and in and of themselves. In success, the opportunity and the halo around toy sales is obvious and meaningful.

Ynon Kreiz: 00:49:33 It's not that it's not important, but we've been able to capture value both from the categories where we're looking to pursue these opportunities, as well as incremental toy sales and reviving some of our brands that have been dormant for many years.

Lowry Howell: 00:49:53 One other thing on the IP side of it, it definitely seems like it requires a different talent set that you've had to hire to mine this IP and really develop it to commercialize it. Can you highlight for us some of how you built that part of the organization and your view of the progress and the team you've created?

Ynon Kreiz: 00:50:19 We took somewhat of a different approach to some of the other players in our space. We did not launch a studio. We did not buy a studio. Instead, we brought on board a small team of experts in each area, whether it's television or film or video games. The approach there is rather than do everything in house, we collaborate with the best partners out there.

Ynon Kreiz: 00:50:56 In the case of films, the film industry is notorious for requiring a lot of capital, being high risk and many great companies and great people were not able to succeed over time because of the risk return profile. Our approach is, rather than hire everybody in house,

collaborate with creators. We retain creative control. We bring in the best writers, producers, directors. We put together the creative package and collaborate with a major studio.

Ynon Kreiz: 00:51:42 The major studio is the part of it that funds development, production and marketing. Our currency in this regard is the IP that we bring to the table. For the reasons I mentioned earlier, the need to rise above the noise level and the built-in fan base is why it's worth it for our partners to take on the financing and the capital that is required in putting up behind our projects. We are effectively being paid for the rights, both in terms of our cash payments, and we're being paid to be a producer. Of course, we have backend participation. Both in terms of the gross dollar participation, gross receipts, as well as profit participation.

Ynon Kreiz: 00:52:37 Our model is capitalized to rely on partners that are experts in the different genres, let them run with the ball, but we will remain at the center in terms of creative control and being able to navigate these properties. When we make a movie, we are profitable day one because we are being paid for it. At the same time, we still have what we believe is meaningful backend participation, so we don't just give the rights away for an upfront payment, but we actually still have backend opportunity to participate in the success of these projects.

Ynon Kreiz: 00:53:25 All of that is possible because of the strength of our brands and the quality of our IP, which are in such demand. With that, we believe our model is different, is more flexible and gives us the opportunity to collaborate and partner with the best players out there per project and still be at a good commercial position.

Lowry Howell: 00:53:52 As value investors, we obviously believe Mattel is worth significantly more than the current share price. What are the most important factors for you and your team to accomplish to close that gap between Mattel's intrinsic value and the current price?

- Ynon Kreiz: 00:54:10 First of all, we agree with you. If you look at the progress we've made, both tangible financial progress as well as all of the foundations and the improvements that we put in place relative to the stock price, clearly there's a gap. I think a gap is a nice word to call this. There are different ways to think about it. Of course, we had a few exogenous issues along the way. Clearly, we're now dealing with maybe the biggest one of all. It's affected all of us. What we continue to do is remain focused on executing our strategy.
- Ynon Kreiz: 00:55:00 You have to believe that the market will catch up. There's something to say about years of under-performance that some people experience and some cynicism along the way. When I came, people said, "Well, here's the fourth CEO in four years. Why is this going to be different now?" We were able to consistently demonstrate and put tangible results on the table. If not for COVID, you can say this was the year where we would have broken through given the momentum and the trajectory and everything that we presented at Toy Fair.
- Ynon Kreiz: 00:55:50 This was a setback. Of course, in the stock price, surely there's some of the uncertainty in the COVID impact that people are concerned about. With a much more flexible balance sheet right now, with no debt maturities until March of 2023 and extended asset-based lending [ABL.] We give ourselves the runway to continue to perform and execute well. At some point you have to assume that the market will catch up because the performance and the results are undeniable. We just have to continue to string quarter after quarter of performance and let the stock price follow and chase what the company is achieving.
- Lowry Howell: 00:56:42 Thank you for that. A couple of quick fun ones before we finish up. We always like to ask people this, especially given that everyone has a little bit more time on their hands right now. Are there any favorite books you've recently read that you would recommend to us or listeners?

Ynon Kreiz: 00:57:02 I love Bob Iger's book, *The Ride of a Lifetime*. I know Bob personally. I'm a big admirer. I know a lot of the people he talks about in the book, and I've been there. I know it from close range, and at the same time it was still interesting and inspiring to read. That's my favorite and most recommended.

Lowry Howell: 00:57:33 Last two quick ones. When all of this ends and things really open up, where's the first place you want to go when travel opens back up?

Ynon Kreiz: 00:57:44 I hope to and I look forward to going to Israel to see my parents, my sister and the rest of the family and friends. It's always great to be there and a very special place for anyone, and of course for me and my family in particular. My wife is also Israeli and her family is there, so we look forward to spending some time there.

Lowry Howell: 00:58:09 Finally, last Mattel question. What's your favorite Mattel game to play?

Ynon Kreiz: 00:58:18 (Laughs) That's a trick question because you can't have a favorite child. Honestly, I'm always inspired by the creativity and innovation. As a kid, I used to play with Hot Wheels, and I love the product. I'm always inspired by the quality and level of innovation in something that is seemingly so simple. It's not an expensive item, but still the level of detail and attention to every part of the car is always amazing.

Ynon Kreiz: 00:58:56 At the same time, I'm really inspired by the work that every other part of the company does. Whether it's games or the innovation of MEGA or some of our action figures and of course in dolls. Every part of the company is full of innovation and fertile ground for creativity. It's always great to walk around and see some of the work. You can't help but feel proud about what we do every day.

Lowry Howell: 00:59:32 Ynon, we sincerely appreciate your time today and your stewardship of Mattel and want to wish the best to you and the Mattel team. Thank you, again.

Ynon Kreiz: 00:59:43 Thank you. We very much appreciate your support. Thank you for this opportunity to talk to you and present our story to your listeners.

Gwin Myerberg: 00:59:59 Many thanks to Ynon for joining us today and to Lowry for the fascinating discussion. Thank you as always to all of our listeners for tuning in to the Price-to-Value Podcast with Southeastern Asset Management. If you have any questions or would like to share topics that you'd like to see us covered in future episodes, please feel free to send us an email at podcast@SEasset.com. We hope you're all keeping safe and healthy.