# WESTPEAK
## RESEARCH ASSOCIATION

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## Mattel, Inc. (NASDAQ: MAT)
**Consumer Discretionary – Children's Entertainment**

### Is Mattel a Sell?
April 3, 2021

*Mattel, Inc. is an international toy manufacturer, advertiser, and distributor that offers their products in over 150 countries. Since 1945, they have aimed to entertain, educate, and inspire children through their collection of iconic brands including Fisher-Price, Barbie, MEGA, and Hot Wheels.*

### Thesis
Transient earnings growth during the pandemic and post earnings optimism has inflated the market's perception about Mattel as a sustainable investment. Investors who bought Mattel shares during the pandemic use Mattel's mature portfolio of licensed brands as a justification. However, they fail to account for how people will set aside the traditional games that kept them occupied during the lockdown and shift to outdoor activities instead, after mass-vaccinations have been executed. The market also overlooks the fact that Mattel fails to leverage modern consumer preferences, leaving them vulnerable in their post-pandemic recovery.

### Drivers
The performance of Mattel's products is contingent on the success of its licensed entertainment partners but given the impact of COVID-19 on attitudes about in-person movie theatre viewings, this will negatively impact their perceived sales potential. As well, being a cyclical business, Mattel is highly reliant on their consumers' discretionary income during the holiday season, when sales peak, and ability to forecast trends.

### Valuation
We initiate a **sell** rating on Mattel, with $15.15 as a target price, representing a 33.4% downside to the current share price of $20.22. To reach this figure, we calculated a discounted cash flow analysis (DCF), EV/EBITDA exit multiple, perpetuity growth rate, and comparable company analysis. The DCF is weighed at 60% and comparable company analysis is weighed at 40%.

| Equity Research | U.S. |
|---|---|
| **Price Target** | **USD$ 15.15** |
| Rating | Sell |
| Share Price (Apr. 3 Close) | USD$ 20.22 |
| Total Return | 33.4% |

| Key Statistics | |
|---|---|
| 52 Week H/L | $21.87/$7.54 |
| Market Capitalization | $7.28B |
| Average Daily Trading Volume | 3.81M |
| Net Debt | $3.25B |
| Enterprise Value | $9.65B |
| Net Debt/EBITDA | 5.2x |
| Diluted Shares Outstanding | 348.17M |
| Free Float | 99.71% |
| Dividend Yield | N/A |

| WestPeak's Forecast | 2020E | 2021E | 2022E |
|---|---|---|---|
| Revenue | $4.62B | $4.97B | $5.39B |
| EBITDA | $476M | $632M | $702M |
| Net Income | $(75)M | $201M | $262M |
| EPS | $(0.21) | $0.58 | $0.75 |
| P/E | (88.1x) | 32.9x | 25.2x |
| EV/EBITDA | 18.9x | 14.2x | 12.8x |

### 1-Year Price Performance
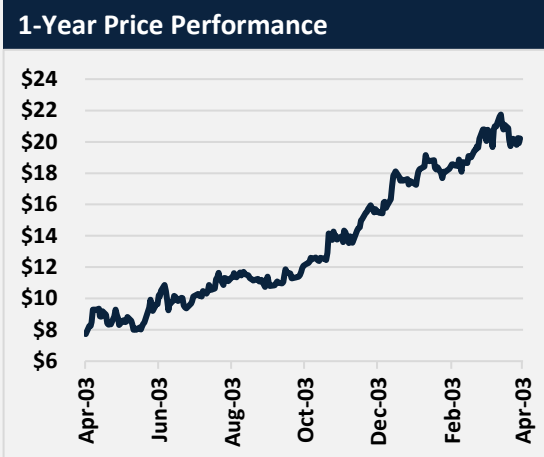
# Business Overview/Fundamentals

## Company Overview

Founded in 1945, Mattel, Inc. is a children's entertainment company, based in El Segundo, Ca, that designs, produces, markets, and distributes toys in 150 countries. They are the owner of an extensive portfolio of global brands with extensive intellectual property ranging from licenses to copyrights and patents, which act as its main economic moat against competitors. Their business model depends on extreme product and brand diversification because it is difficult to always predict trends correctly for each of their target audiences.

## Portfolio Categories

### Category 1: Dolls

Mattel's portfolio of dolls includes brands such as Barbie, Polly Pocket, Enchantimals, and American Girl. Barbie began as a fashion doll in 1959, but its portfolio has expanded to accessories, lifestyle products, gaming, movies, and other digital content. American Girl is another doll brand that aims to instill important life lessons through its dolls and books. Consumers can purchase their products directly through its website, catalogue, and proprietary retail channels. The Dolls category is Mattel's most robust category, as its dominant brand, Barbie, has continued to see steady growth in revenue figures, despite other categories experiencing declining growth.

### Category 2: Infant, Toddler, and Preschool

Mattel's portfolio of Infant, Toddler, and Preschool includes brands such as Fisher-Price and Thomas & Friends, Power Wheels, Fireman Sam, and Shimmer and Shine (Nickelodeon). Fisher-Price aims to enhance the lives of children at an early age through their playsets and infant care products. Thomas & Friends is a preschool train brand franchise that imparts life lessons to children with their digital content, movies, toys, live events, and other lifestyle products. This is their weakest portfolio category in terms of growth, as its principal brands, Fisher-Price and Thomas & Friends, have seen continuous revenue decline in the past 5 years, with 2020 being no exception.

### Category 3: Vehicles

Mattel's portfolio of vehicle brands includes Hot Wheels, CARS (Disney Pixar), Matchbox, and Jurassic World (NBC Universal). Since 1968, Hot Wheels has created diecast cars, tracks, playsets, and advanced play products to spark the challenger spirit of kids, adults, and collectors. Products in this category have not evolved much over the last few decades, except for the incorporation of design elements from licensed brands.

**Category 4: Action Figures, Building Sets, and Games**

Mattel's portfolio of Action Figures, Building Sets, and Games include UNO, MEGA, Jurassic World (NBC Universal), WWE, and Toy Story (Disney Pixar). MEGA creates toy brick products that are designed to stimulate creativity in children and adults. UNO is a multi-player card matching game that is meant to be intuitive and bring people together through play. In this category, they rely on licensing partnerships, commonly with movie franchises. This means the success of the products is dependent on variability of how well audiences respond to an upcoming show or movie.
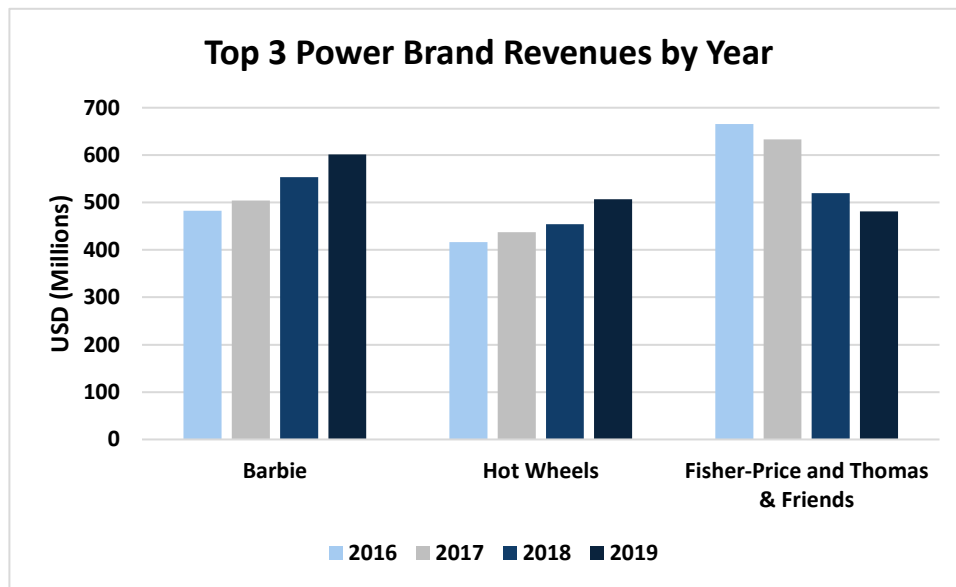
## Segments

**North America**

The North America segment advertises and sells toys in the US and Canada across its various portfolio categories. In the US, Mattel abides by the requirements of the *Consumer Product Safety Act* and *Federal Hazardous Substances Act*, which establish safety standards that all goods must uphold to be publicly sold. In addition, their promotional material and advertisements must follow strict policies from authorities such as the *Federal Trade Commission* and *Federal Communications Commission*, since their consumers are children, who may be vulnerable to manipulation. Being in the digital era, Mattel also must take into consideration internet security and data collection, particularly for children.
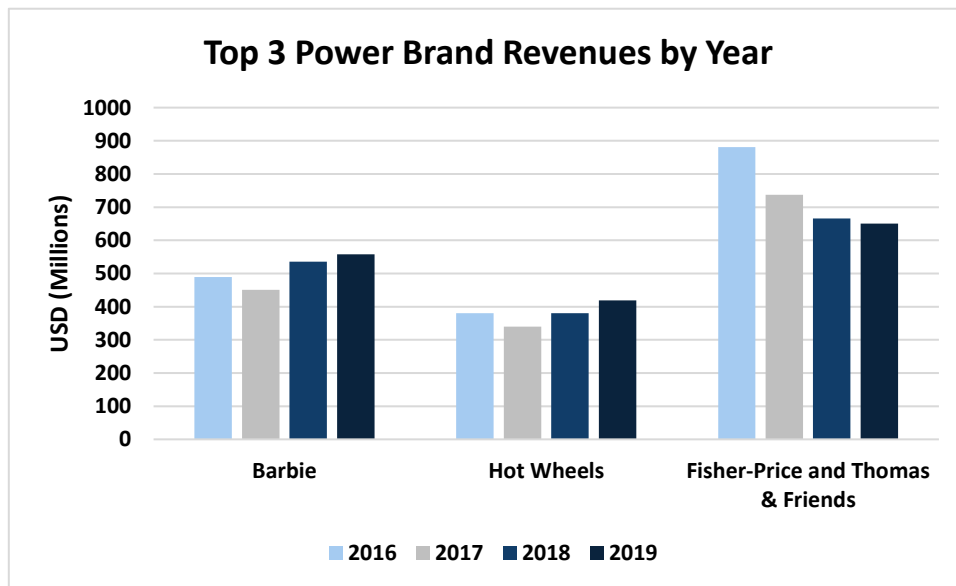


*Source: Company Filings (10K report)*

**International**

Products under the International segment are mainly the same as the ones developed and advertised by the North America segment. However, some products are designed or adapted for international markets. Their products are distributed directly to wholesalers and retailers in most Asian, Latin American, and European countries, in Australia and New Zealand, and other third-party agents and distributors in those countries. None of the countries under this segment exceeded 7% of worldwide consolidated gross sales during 2019. In the International segment, Mattel must also be compliant to trade regulations, notably from the *European Union* (*EU*). Mattel's presence in over 150 countries forces them to be socially and culturally aware to prevent any misinterpretations of products, which could be detrimental since news is disseminated so quickly over the internet.

**Top 3 Power Brand Revenues by Year**



*Source: Company Filings (10K report)*

**American Girl**

The American Girl segment is a direct retailer, advertiser, and children's publisher with the purpose of developing the character of girls. This segment sells custom dolls directly to consumers through its e-commerce website, catalogue, in its proprietary retail stores and select retailers in America, and specialty franchise stores in Canada. Aside from dolls, American Girl publishes fiction and non-fiction books to help equip girls with resilient mindsets so they can adapt to the challenges of growing up. Unlike the North America and International segments, this one focuses on the customer experience by offering completely unique products to each consumer and they accomplish this through their e-commerce platforms, with less of an emphasis on brick-and-mortar stores.

**American Girl Gross Sales by Year**
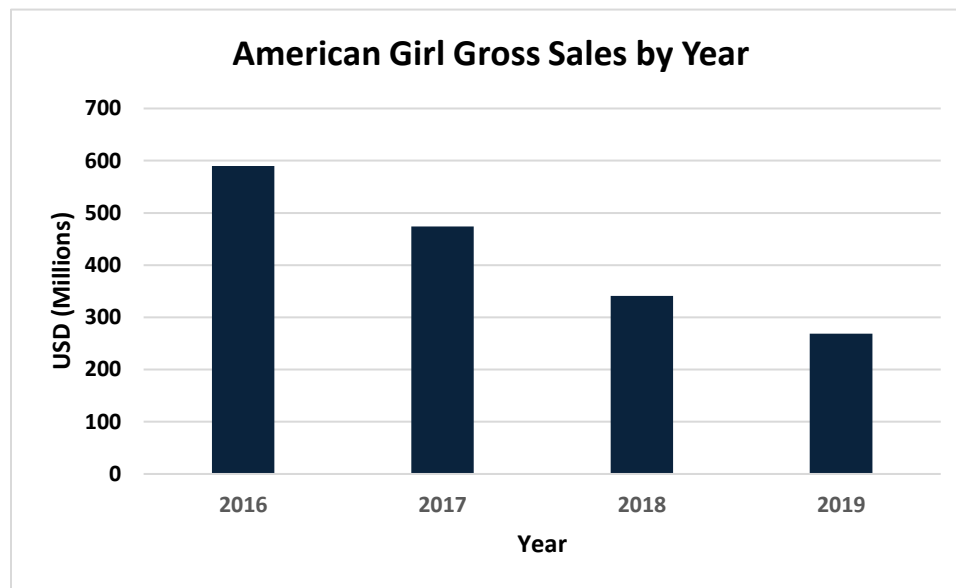


Source: Company Filings (10K report)

# Industry Analysis

## Seasonality

Instilled in societal norms, consumers make most of their toy purchases during the later months of the calendar year, from September to December. The cause behind this behaviour is the holiday season, when people traditionally make gift purchases for friends and family. Recognizing this, toy retailers and department stores make the bulk of their purchases in Q3, in preparation for when consumers go present shopping. Consequently, toy companies must boost the production of their products ahead of time and store the build-up of inventory in the first three quarters so that they are ready to fulfill the orders demanded by customers.

## Age Compression

As disclosed in Mattel's FY 2016 10K report, there have been trends towards shorter product life cycles and a rise in the use of technology in toys. Coined as "age compression," an intensifying number of children have been outgrowing their toys at younger ages than historically. Instead of playing with traditional toys, they seek to play with more advanced products such as tablets, computers, and video games. Therefore, consumer retention amongst the different toy categories is dwindling as children seek the next exciting form of entertainment.

## Digitalization

With technology rapidly becoming more integrated into daily life, children are moving to video games as a means of entertainment. A 2019 survey conducted in the United States (US) asking parents about their childrens' video game habits reports 22% of children played video games on smartphone devices, 22% played on tablets, and 11% played on the computer (Statista).

**Share of Children Playing Video Games on Selected Devices According to their Parents in the US (2019)**
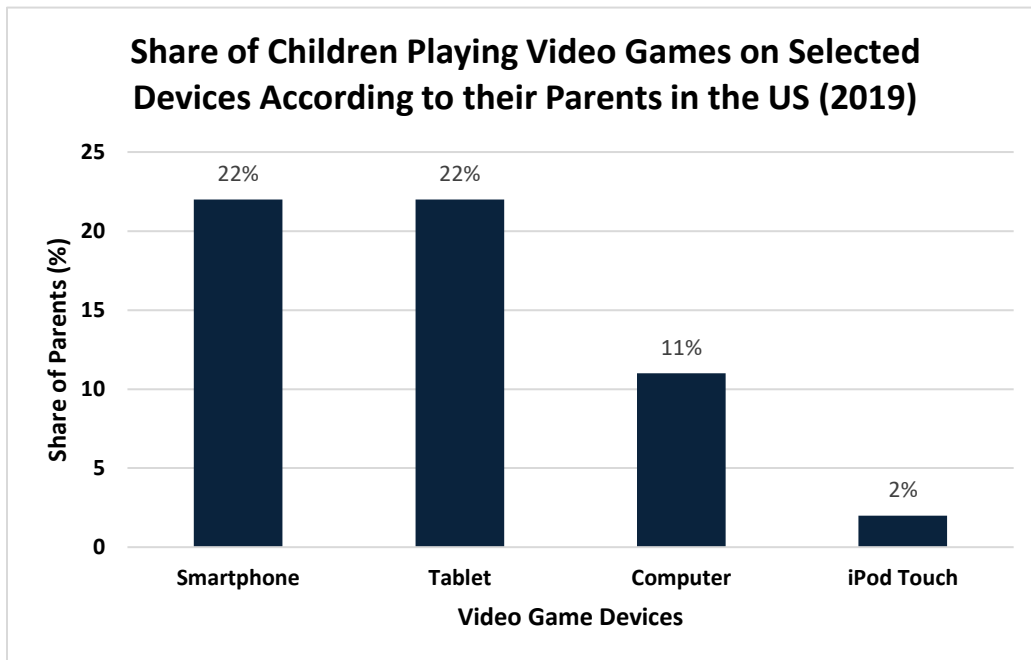
Source: Statista

Additionally, research from *Statista* indicates that in 2018, there were 395 million global viewers for eSports, competitive multi-player video games, and this number is expected to reach 646 million by 2023. However, this opens many opportunities for toy manufacturers to acquire licenses to popular video games to create merchandise.

**eSports Audience Size Worldwide from 2018 to 2023 by Type of Viewers**
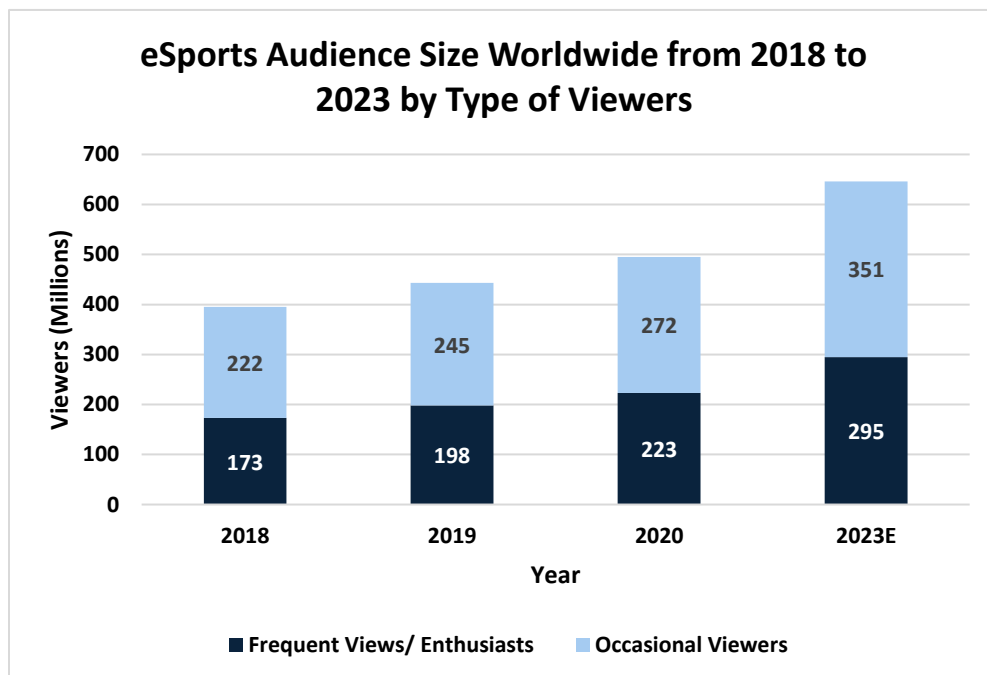
Source: Statista

Social media and digital marketing have also gained prominence in recent years, with toy reviewers on YouTube like *Ryan's World*, reaching over 24 million subscribers. As well, smaller businesses have had to adapt to traditional retail strategies and in-store marketing, because of COVID-19 restrictions and thus decreased brick and mortar foot traffic. Some retailers have begun showcasing their products digitally through livestreaming on apps such as *Popshop Live*, which enable hosts to visually showcase their toys and list the product links for people to make immediate purchases. A 2020 study from *Euromonitor International* showed that 80% of parents with children below the age of 17 used YouTube and Facebook during the pandemic (Passport GMID). Furthermore, 60% of survey respondents also answered that it has become routine to learn about products and services through social media.



Youtuber, *Ryan's World*, reviewing a *Disney Cars* themed Hot Wheels set, from Mattel's "Vehicles" category.

*Source: YouTube*

### Learn and Play at Home

In 2020, education was taught remotely to children, as COVID-19 restrictions prohibited any major gathers to protect the health and safety of people. 84% of students were impacted worldwide because of school closures or partial closures, according to *UNESCO*. As a result, this boosted a growing demand from parents for educational toys, particularly in STEM, to give their children the best education possible at home. Meanwhile, parents are slowly moving away from traditional toys that are perceived to add no value to their childrens' education, as they are not viewed to be as helpful for academic development.

# Catalysts

## COVID-19 Restrictions Lifted

Shortly following the mass vaccinations for COVID-19 worldwide, social contact will begin to become more common again. Quarantine had caused many children to feel mentally and emotionally troubled, indicated by a survey conducted by the *Department of Health Psychology at Miguel Hernández University*. Their research explored the differences in behaviours and emotions between children ages three to eighteen before and during quarantine. They found that there were heightened feelings of boredom (52%), restlessness (38.8%), loneliness (31.3%), and worries (30.1%) compared to their pre-pandemic states. To cope with these feelings, families purchased games and toys for their children, which is evident with the 28.9% increase in revenue for Barbie in Q3 of FY 2020.

However, given children have grown tired of being confined at home and miss social interaction, it is likely that they will spend most of their time post-COVID playing together. In addition, the spike in revenues for Mattel during quarantine were prompted by families feeling a need to occupy time in the short-term while they were kept indoors. These increases in sales for brands are expected to be temporary and growth will decelerate as people are able to spend more time outdoors. Parents will place their children back in extra-curricular activities, such as sports teams, music lessons, and language courses, reducing the family's discretionary income to purchase toys and their childrens' time to play with toys.

## False Positive Projections for Earnings Results

The greatest inflator of Mattel's share price is the market's optimism that the company will be able to sustain its revenue growth. After Mattel released its Q3 earnings report in October 2020, they have been praised across various news channels for Barbie's spike in 28.9% growth and 156% increase in operating income. As a result, investors have bought into the hype and feel confident that Mattel can leverage their short-term victories to boost long-term progress.

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MARKETS

# Mattel (MAT) Beats Q3 Earnings and Revenue Estimates

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*Source: NASDAQ*

CNBC   MARKETS  BUSINESS  INVESTING  TECH  POLITICS  CNBC TV  WATCHLIST  PRO

MAD MONEY

# Barbie-maker Mattel CEO: Toy demand has been 'more than we expected'

PUBLISHED FRI, OCT 23 2020•6:37 PM EDT

*Source: CNBC*

Though, what investors do not acknowledge is how many families had extra discretionary income to spend in 2020 due to the pandemic lockdowns, which temporarily altered their spending habits. In 2020, the global tourism industry experienced an 8.9% decline in overall revenues from 2019 and gas stations faced a 17.5% drop in revenue overall in the US (IBIS World). Moreover, according to industry reports from *IBIS World*, restaurant establishments in the US saw their annual revenue figures fall by 14.5%. Parents were more willing to purchase toys when there was not much else to spend their money on.

Once consumers find better substitutes to occupy their time and spend less on Mattel products, we believe earnings results will be similar to those in the pre-2020 era. Consequently, when future earnings releases are available and investors see that Mattel is not the powerhouse company they had once thought it to be, they will undoubtedly sell their shares. After a few gloomy earnings releases, we believe that Mattel will lose significant investor interest and share prices will descend towards our target price.

## Movie Theatre Businesses Vanishing

Although the coronavirus restrictions impacted movie theatre business due to safety concerns, there was already a downward trend in movie theatre ticket sales in recent years. According to *Deloitte*, movie theatres overall sales declined by 6% year-over-year in 2017 and from 2009 to 2017. They also indicated that the compounded annual growth rate (CAGR) for theatre attendance declined by 2%. In addition, despite the United States (US) being home of Hollywood, the top movie industry in the world, *IBIS World* finds that, annually, the number of theatre establishments across the country has declined continuously.

Once movie theatres open again after mass-vaccinations have be conducted, we do not expect as great of a surge in movie screening attendance as it is thought to be. Instead, people will opt to view the digital version via streaming services as it is more cost-effective, convenient, and safe if people still have doubts about the virus. Since Mattel's economic moat is creating products based on popular movies, especially for their Action Figures, Building Sets, and Games portfolio category, they will not experience exponential growth in the coming years.

**US Movie Theatre Establishments vs US per Capita Disposable Income**
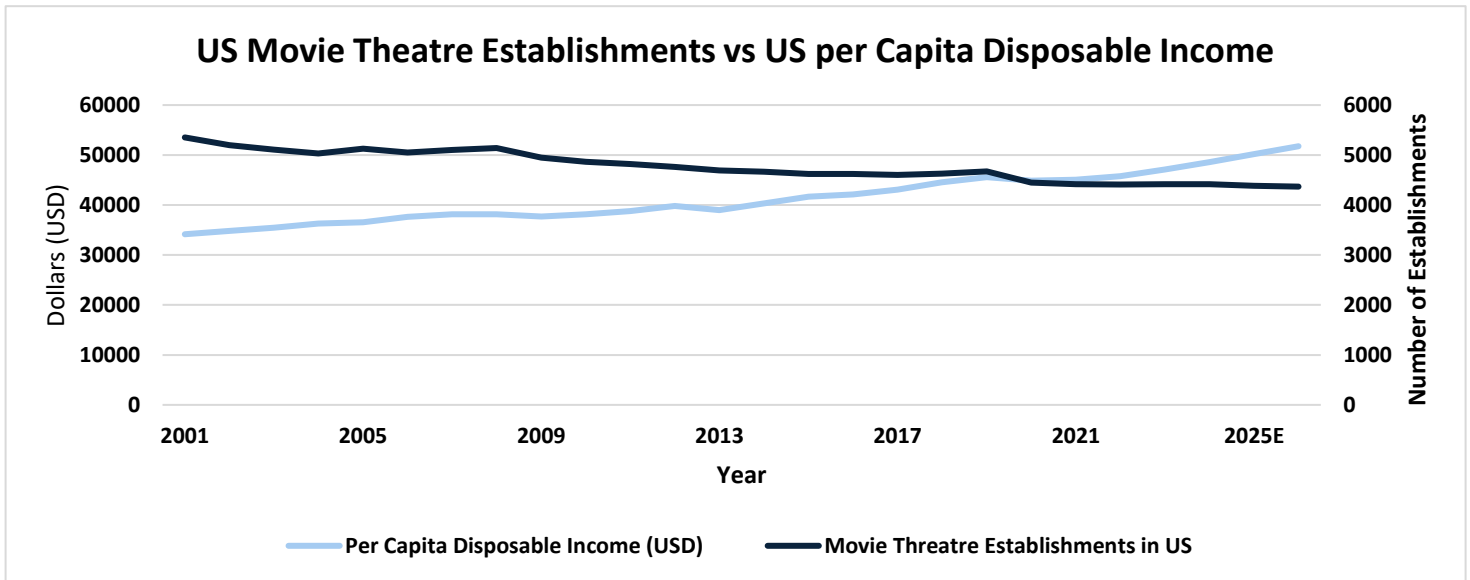


*Source: IBIS World*

## Increased Tariffs on Chinese Imports from Trade War

According to experts, the Biden presidency will not completely resolve the trade tensions, left from the Trump administration, between the US and China. While the two superpowers established a temporary truce in January 2020, this does not guarantee that there will not be any future changes to tariffs imposed on Chinese goods. Currently, the US voices their concern about China's human rights issues and keeping its currency low, while China accuses the US of impeding the success of their major technology companies and tarnishing the reputation of the Communist party. Thus, there is still clear tension between the two countries.

Since some of Mattel's foremost manufacturing facilities are in China, future tariffs will force the price of toys imports upwards. Traditional toys have countless substitutes, so an increase in the price of toys will decrease consumer demand for Mattel's products.

# Management Team

## Ynon Kreiz (Chairman and Chief Executive Officer)

Ynon Kreiz joined Mattel, Inc. in April 2018, assuming the position of Chief Executive Officer (CEO) and has served as the company's appointed Chairman since May 2018. In FY 2019, his total compensation was $15,514,997, which can be broken down as: $1,500,000 in base salary, $4,346,100 in bonus and non-equity incentives, $7,162,507 in stock award value, $2,387,499 in option award value, and $118,891 in other compensation.

Prior to Mattel, Ynon was Chairman and CEO of Maker Studios, Chairman and CEO of Endemol Group, General Partner at Balderton Capital (previously Benchmark Capital Europe), and co-founded Fox Kids Europe NV where he acted as the Chairman and CEO.

## Richard Dickson (President and Chief Operating Officer)

Since April 2015, Richard Dickson has acted as President and Chief Operating Officer (COO), whose responsibilities include leading marketing, global operations and franchise management, design and development, brand innovation, and strategy for Mattel's portfolio of brands. In FY 2019, his total compensation was $7,746,544, amounting to $1,000,000 in base pay, $1,931,600 in bonus and non-equity incentives, $3,557,773 in stock award value, $1,125,002 in option award value, and $132,169 in other compensation.

Prior to becoming the COO, he served as Chief Brands Officer (CBO) at Mattel from May 2014 to January 2015, President and CEO of Branded Businesses for The Jones Group, Inc., General Manager and Senior Vice President of the Barbie Brand at Mattel from August 2008 to February 2010, Senior Vice President at Mattel from 2000 to 2008, Vice-President of Brand Management and Merchandising at Estee Lauder Companies, and helped manage a high-end cosmetics e-commerce website called Gloss.com

## Anthony DiSilvestro (Chief Financial Officer)

Anthony DiSilvestro became Chief Financial Officer (CFO) of Mattel in June 2020. His role is to manage the global finance organization, comprised of commercial finance, financial planning and analysis, brand finance, global insights and analytics, global shared services, global strategic planning, investor relations, mergers and acquisitions, internal audit, tax, and treasury. Silvestro's future annual compensation is set to be: $900,000 in base salary, $1,050,000 in bonus, and $525,000 in stock options.

Previously he was Chief Financial Officer of Campbell Soup Company from 2014 to 2019 and served in numerous financial leadership roles in the company since 1996, including Chief Financial Officer of their North America and International divisions, Senior Vice President - Finance, Head of Strategic Planning and Corporate Development, Treasurer, and Controller. Prior to Campbell Soup Company, he held various financial positions at Scott Paper Company for more than a decade.

## Management Conclusion

In view of the management's compensation bundles, we believe management will be motivated to manage its debt situation, tackle declining revenue growth, and explore opportunities to support company growth.

# Company Strategy

## Goals

Currently, management has two goals to ensure steady growth at Mattel. In the short- to mid-term, they want to restore profitability by reshaping operations and regain top-line growth. Mattel's top-line has increased in 2019 from 2018, with net sales increasing by $3 million in the North America segment and $57 million in the International segment. Meanwhile, in the mid- to long-term, they are seeking to grow their e-commerce presence and maximize the value of their intellectual property through franchise management.
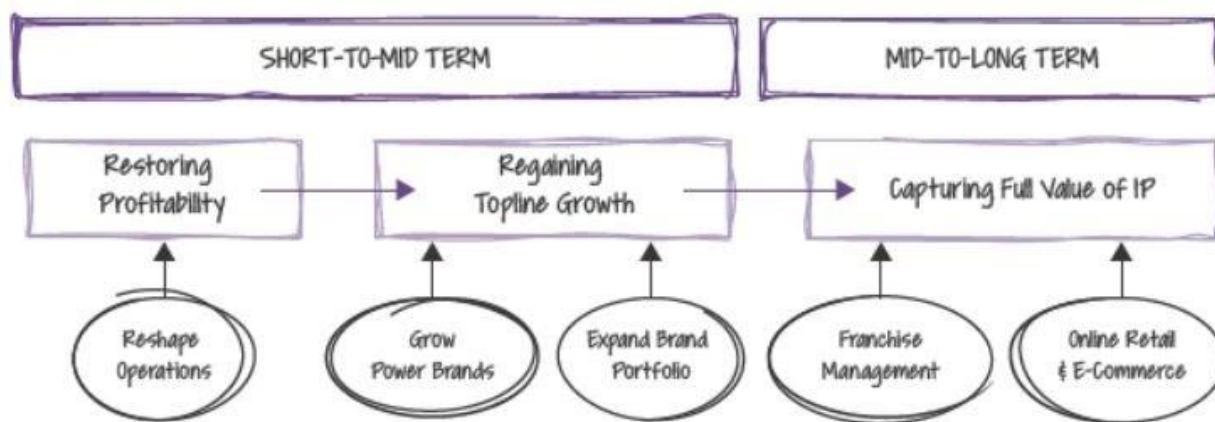


*Source: Company Filings (10K report)*

## Cost Savings Programs

**Structural Simplification Cost Savings Program**

In the first quarter of 2017, they initiated the Structural Simplification cost savings program to reduce manufacturing complexity, the headcount expenses, and cost of advertising. During the year ended December 31, 2019, they saved $875 million, which exceeded their original target of $650 million. Through this program, Mattel experienced cost savings of approximately $219 million within gross profit, $123 million within other selling and administrative expenses, and $24 million within advertising and promotion expenses during the year ended December 31, 2019.

**Capital Light Program**

The Capital Light program was launched in the first quarter of 2019 with the intent to reduce the company's overall manufacturing footprint, boost productivity of its plant infrastructure, and optimize additional processes of its supply chain. Employing the program in 2019, they discontinued facilities in China, Mexico, and Indonesia, resulting in $15 cost savings from their gross profit during the year ended December 31, 2019. Presently, they are considering other measures that will produce additional cost savings such as the geographical footprint of co-manufacturing facilities and optimization of owned and operated manufacturing facilities.

**Bottom Line**

These cost savings strategies show Mattel is a mature brand that is entering the declining stage of its business lifecycle. Sales and profits are declining, in aggregate, so the company is forced to shut down operations to recover costs and pay off debt, hindering overall growth for upcoming years.

# Shareholder Base, Liquidity, Market Depth

## Shareholder Base

At the time of publishing this report, Mattel has 349 million shares outstanding, with 346.92 million (99.72%) of those shares being free float. Their top 10 shareholders are listed in the table below, who account for 225.91 million shares.

| Shareholder | Common Stock Equivalent Held | % of CSO | Insider? | Position Date |
|---|---|---|---|---|
| (Name) | (Millions) | (%) | (Y/N) | (Date) |
| PRIMECAP Management company | 48.17 | 13.84 | N | 30-Sep-20 |
| EdgePoint Investment Group Inc. | 47.35 | 13.6 | N | 30-Sep-20 |
| The Vanguard Group, Inc. | 30.31 | 8.71 | N | 30-Sep-20 |
| BlackRock, Inc. | 2.92 | 8.38 | N | 30-Sep-20 |
| Southeastern Asset Management, Inc. | 28.08 | 8.07 | N | 30-Sep-20 |
| Capital Research and Management Com | 17.51 | 5.03 | N | 30-Sep-20 |
| Ariel Investments, LLC | 17.21 | 4.95 | N | 30-Sep-20 |
| T. Rower Price Group, Inc. | 13.67 | 3.93 | N | 30-Sep-20 |
| Dodge & Cox | 12.64 | 3.63 | N | 30-Sep-20 |
| FMR LLC | 8.05 | 2.31 | N | 30-Sep-20 |
| **Top 10 Shareholders** | **225.91** | **72.45** | | |

*Source: Capital IQ*

As shown in the Public Ownership Summary chart, 335.11 million (96.25%) of common stock are owned by institutions, while the rest are owned by individuals/ insiders, state owned shares, and others.

| Public Ownership Summary | | |
|---|---|---|
| Type | Common Stock Equivalent Held | % of CSO |
| (Name) | (Millions) | (%) |
| Institutions | 335.11 | 96.25 |
| Individuals/ Insiders | 1.30 | 0.37 |
| State Owned Shares | 0.13 | 0.04 |
| Public and other | 11.64 | 3.34 |
| **Total** | **348.17** | **100.00** |

*Source: Capital IQ*

## Liquidity

In 2020, Mattel had an average trading volume of 3,7770,925 shares, with a large spike in Q4. The surge can be attributed to the increase in consumers purchasing products as gifts for the holiday season and release of their Q3 earnings report, as there was a 28.9% increase in sales for the Barbie brand for that quarter.
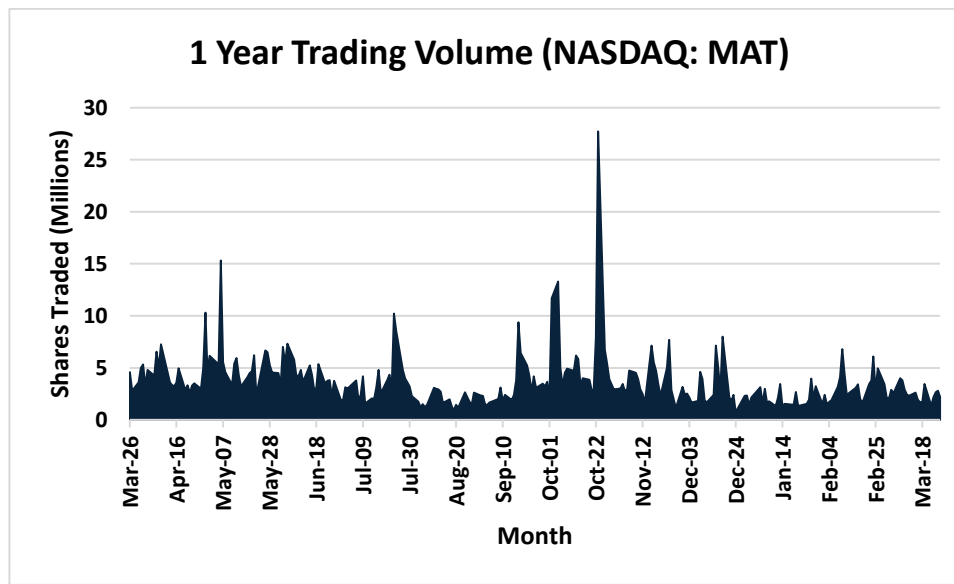


*Source: Yahoo Finance*

# Valuation

## Discounted Cash Flow Assumptions

**Barbie Revenue:**

We believe that the Barbie brand will grow at a rate of approximately 11.3% in 2021, as children continue to stay at home due to COVID-19 restrictions. Starting 2022, our forecast is that it will grow to 12% and another 0.5% of growth will be added each year because parents will hesitate to invest in toys that will potentially spread illnesses amongst children, if shared. However, being a toy that can be played individually, parents will be more inclined to continue making Barbie purchases.

**Hot Wheels Revenue:**

Hot Wheels is forecasted to grow at a constant 10% rate from 2022 to 2025, as the it is one of Mattel's few brands that has stayed relevant amongst children up until modern times. In our projection, we also took into consideration COVID-19 and the lingering health concerns with play. Since Hot Wheels is also offered as a video game, this helps children engage with the brand and convince parents to purchase the inexpensive toys.

**Fisher-Price and Thomas & Friends Revenue:**

The projected revenue for Fisher-Price and Thomas & Friends will grow at a constant 5% rate from 2022 to 2025. Despite COVID-19, parents will continue to purchase products for their infants and toddlers to enhance their growth at a young age. Children up to the age of three are generally not developed enough to play with more complicated toys or games, so there will continue to be a demand for basic toys in this category in the future.

**Cost Margins:**

The costs are projected to be 49% in 2021 and will drop to 48% in 2022, followed by a 0.5% decrease annually after 2022. Looking at historical data, Mattel has been making progress at shaving away at their COGS since 2017 when their COGS as a percent of revenue peaked at 62.6%. For the last few years, Mattel has been executing two cost savings programs: Structural Simplification and Capital Light to reduce the overall costs associated with operations. In addition, they recently hired a new Chief Financial Officer, Anthony DiSilverstro, who has a long history of working at Campbell's, so we are confident that Mattel will be able to reduce costs slowly in the course of the next couple of years.

**Capital Expenditures (CapEx):**

Due to Mattel's plan to cut down on costs in the next few years, they will continue to shut down factories, thus we have set our CapEx to be 12% for the coming years. The estimated useful life of the property and equipment is held at 3 years because that is the amount of life it has had historically.

**Weighted Averaged Cost of Capital (WACC):**

The weighted average cost of capital (WACC) was calculated to be 8.0% from a cost of equity of 10.8% and cost of debt of 0.7%. To determine the cost of equity, we used the 5-year Treasury bill as the risk-free rate of 1.15%, the normalized S&P 500 expected return of 8.97%, and a leveraged beta of 1.24 from *Bloomberg*. For the cost of debt calculation, we considered a pre-tax cost of debt of 1.0% and effective tax rate of 35.18%.

**Weighted Price Target:**

The target price was created based on a 60% weight on the discounted cash flow analysis and 40% weight for the comparable company analysis. For the discounted cash flow analysis, the perpetuity growth implied price was $19.51 and exit multiple implied price was $14.60. For the comparable company valuation, the EV/EBITDA implied price was $11.91, and PE implied price was $10.23. Thus, our target price is $15.15.

## Comparable Company Analysis Set

**Hasbro, Inc. (NASDAQ: HAS):** Hasbro is an American-based company that develops, manufactures, distributes, and sells children's entertainment products on a global scale. They undoubtedly are Mattel's closest competitor, as they are a major player in the children's entertainment industry with several subsidiaries. Their portfolio includes products such as action figures, infant products, electronic toys, dolls, vehicles, plush toys, and traditional board games. Hasbro also owns numerous notable brands such

as NERF, Monopoly, My Little Pony, and Play-Doh. We believe Hasbro is an ideal competitor for the comparable company analysis because they offer an extremely similar variety of products and yield relatively close EV/EBITDA ratios.

**Spin Master Corp. (TSX: TOY):** Spin Master is a Canadian-based children's entertainment company that designs, produces, and advertises games, products, and entertainment properties globally. Their products are separated into the following categories: games & puzzles, and plush; boys' action and construction; remote control and interactive characters; outdoor; and pre-school and girls. A few notable brands under their portfolio are Bakugan, PAW Patrol, and Air Hogs. Up until 2020, Spin Master produced 11 different international television series including PAW Patrol, Bakugan Battle Brawlers, and its first Netflix series: Mighty Express. This company satisfies our requirements for the comparable company analysis, as they offer a wide range of products in their portfolio like Mattel and their equity value is relatively large enough for our calculations.

**Vtech Holdings Limited (SEHK: 303):** Vtech Holdings is a Hong Kong-based company that develops, manufactures, and distributes consumer electronics on an international level. They are the leading competitor in the market for infant, toddler, and preschool electronic toys. Their children's products fall under the Vtech and Leap Frog brands. A few of their notable products are their learning tablets, smart watches, and interactive digital books. We chose Vtech as a competitor for the comparable company analysis, since they rival Mattel's selection of infant toys and their equity value is relatively large enough for our calculations.

# Recommendation

Considering COVID-19 is a catalyst for Mattel's short-term revenue growth, but long-term revenue decline, we believe Mattel is overvalued by the market. After mass vaccinations have been completed and people begin stepping back into lifestyles like those pre-COVID, toy sales will not continue to grow at exponential rates as they did at some points during the pandemic. Consequently, investors will sell their shares after repeatedly witnessing earnings results that did not live up to their expectations.

In recent years, there has been exponential growth in mobile and online games that Mattel has yet to truly capitalize on, despite competitors adapting to this shift in the industry. While they have a selection of Barbie video games, these cannot compare to the utter craze for multi-player video games such as *Fortnite* and *Overwatch*, which have seized the attention of children of all ages. As well, their business model relies on the success of the movie theatre industry to engage audiences, which has been permanently impacted by the COVID-19 pandemic.

In our valuation, we determined a target price of $15.15 using the following:

- 40% weighting on the perpetuity growth DCF method, projecting a share price of $19.51.
- 20% weighting on the exit multiple DCF method, projecting a share price of $14.60.
- 20% weighting on the EV/EBITDA comparable company analysis method, projecting a share price of $11.91.
- 20% weighting on the P/E comparable company analysis method, projecting a share price of $10.23.

We weighed our DCF at 60% because Mattel is a mature company with highly predictable growth rates and profit margins. While they do have substantial debt, they have implemented a few cost savings strategies and have made gradual progress at reducing it, which we predict to continue in the next five years. With these in mind, we made conservative projections for their revenues and expenses, accounting for the decline in post-pandemic sales. Hence, we weighed the perpetuity growth rate method at 40% because we believe the valuation method best fits Mattel's company profile and financial situation. However, we weighed the exit multiple method at 20%, as we acknowledge that the 7.7x terminal multiple is based on the median expected EV/EBITDA ratio from our comparable company analysis, which may not be the most effective, considering we only compared Mattel to other 3 companies. Accordingly, we gave the exit multiple method the same weight as our two other calculations from the comparable company analysis.

The comparable company analysis is weighed at 40% since Mattel's competition is varied in terms of financial size. Their main competitor, Hasbro, is their best relative metric because they operate almost identical business models, yet their equity value is almost two times larger than Mattel's. If Mattel is compared to its next two closest competitors, Spin Master and Vtech, their equity values are approximately two to three times smaller than Mattel's, so their operations are not exactly comparable because of differing economies of scale. Most competitors are significantly smaller than Mattel and offer niche product lines, in contrast to Mattel's all-around product portfolio. Thus, this valuation method may not be the most effective to determine Mattel's value, so we have weighed both the P/E and EV/EBITDA methods at 20%.

Based on the discounted cash flow and comparable company analyses, we initiate a **sell** rating on Mattel.

# Risks

## Seasonality

A heavy portion of Mattel's sales are generated from September to December when families purchase gifts for the holidays. Unforeseen events that disrupt business operations such as delays in transportation, strikes, and issues with manufacturing during these integral periods may disproportionately affect the company's sales for that given year. Furthermore, retailers often minimize their inventories to what is seen as essential at a given time, so Mattel is required to ship products closer to when the retailers anticipate they will begin to sell the products.

On the consumer level, last minute shopping and opting for gift card purchases instead of actual products are becoming more common during the holiday season. If any unexpected events, including natural disasters, economic downturns, or terrorist attacks occur during the holidays, customers will be hesitant to make retail purchases. These consumer decisions may adversely affect the sales of products during the holiday season and increase the risk of Mattel not being able to meet the demand for products in peak demand periods.

## Customer Concentration

Mattel relies on a limited customer base to generate a huge share of their net sales globally. The company's two largest customers in 2019 were Walmart and Target, who generated 1.01 billion USD and 0.44 billion USD in sales respectively, accounting for 32% of net sales in that fiscal year. Thus, if retail partners reduce product orders for any reason such as,

offering their own private-label toys or favouring competitors, Mattel's financial performance and business operations will be severely impacted.

## Highly Competitive Environment

The toy industry has low barriers to entry and as a result, there are always emerging competitors, which may challenge Mattel's ability to offer unique products. New market entrants may become significant sources of competition in a short period of time if they offer a popular product idea or entertainment property. Moreover, Mattel's competitors are continuously seeking to secure entertainment properties, which may hinder Mattel's ability to acquire and retain popular licenses in the future. Mattel has little control if a licensor decides to raise royalties and guaranteed payments if it means keeping a popular entertainment property in their portfolio. There is also no guarantee that licensing a specific property will result in Mattel creating a successful product.

## Disruptions in Manufacturing Operations or Supply Chain

A disruption to the supply chain or manufacturing operations due to disease, civil unrest, and political trade disputes will pose a threat to Mattel's highly interconnected supply chain. Most recently, the COVID-19 pandemic has materially impacted global operations, as there have been government-imposed restrictions on the number of people working at a given time, travel, and shipping to protect the health of workers. It is challenging to determine how long the effects of major public-health crises like the coronavirus outbreak will continue to affect the company and if any potential issues will emerge in the future.

## Increasing Integration of Technology into Products

Children are becoming increasingly interested in toys that are more technologically advanced and digitally focussed. Concurrently, parents have seen the value in developing their children through technology-based play. While these new products may offer several benefits to Mattel, they also pose various risks.

Products such as video games, social and digital media, and consumer electronics may pose a threat to the popularity of more traditional toys offered by Mattel. Additionally, the research and development processes for technology-based products tend to be more costly and lengthy, in comparison to traditional toys. Unfortunately, consumer tastes in digital entertainment products evolve rapidly, which may pressure Mattel to follow a tight timeline for product development. If there any delays in the design, development, or production processes, this may drastically effect Mattel's ability to launch these products effectively. Digital products also pose legal risks surrounding data privacy and security regulations enforced by government laws, which may differ depending on the region.

## Appendix 1: Summary Page

### Summary Page

| (Figures in mm USD) | Dec-15 FY2015 | Dec-16 FY2016 | Dec-17 FY2017 | Dec-18 FY2018 | Dec-19 FY2019 | Mar-20 Q1-2020 | Jun-20 Q2-2020 | Sep-20 Q3-2020 | Dec-20 Q4-2020 | Dec-20 FY2020 | Dec-21 FY2021 | Dec-22 FY2022 | Dec-23 FY2023 | Dec-24 FY2024 | Dec-25 FY2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | | | | | | | | | | |
| Revenue | 5,702.6 | 5,456.7 | 4,881.5 | 4,514.8 | 4,504.6 | 594.1 | 732.1 | 1,631.7 | 1,660.1 | 4,618.0 | 4,974.2 | 5,398.2 | 5,869.7 | 6,395.7 | 6,984.7 |
| EBITDA | 806.3 | 781.6 | (60.9) | 37.6 | 283.8 | (96.2) | 55.5 | 533.7 | (16.6) | 476.4 | 632.1 | 701.8 | 792.4 | 895.4 | 1,012.8 |
| Net Income | 369.4 | 318.0 | (1,054.6) | (533.3) | (213.5) | (210.7) | (109.2) | 316.0 | (70.7) | (74.7) | 200.7 | 261.6 | 344.5 | 437.4 | 537.2 |
| Earnings Per Share | $ 1.09 | $ 0.92 | $ (3.07) | $ (1.55) | (0.62) | $ (0.61) | $ (0.31) | $ 0.91 | $ (0.20) | $ (0.21) | $ 0.58 | $ 0.75 | $ 0.99 | $ 1.25 | $ 1.54 |
| **Cash Flow Statement** | | | | | | | | | | | | | | | |
| Capital Expenditures | (111.8) | (122.1) | (168.2) | (77.8) | (65.8) | (23.9) | (10.4) | (14.6) | (24.9) | (73.9) | (56.6) | (46.8) | (36.8) | (29.0) | (22.8) |
| Acquisitions | - | (33.2) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Divestitures | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividend Payment | (515.1) | (518.5) | (312.0) | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividend Per Share | $ 1.52 | $ 1.52 | $ 0.91 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | - |
| Dividend Payout to Earnings | 139.4% | 163.0% | -29.6% | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividend Payout to Core FCF | 61.3% | 65.7% | 198.4% | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividend Yield | 6.0% | 5.1% | 4.1% | - | - | - | - | - | - | - | - | - | - | - | - |
| **Balance Sheet** | | | | | | | | | | | | | | | |
| Current Assets | 3,001.1 | 2,940.1 | 3,111.6 | 2,347.2 | 2,248.0 | 1,807.1 | 2,026.1 | 2,599.9 | 2,507.1 | 2,507.1 | 2,988.0 | 3,326.8 | 3,851.5 | 4,468.2 | 5,188.6 |
| Non-Current Assets | 3,534.1 | 3,553.7 | 3,126.9 | 2,891.0 | 3,077.3 | 2,997.3 | 2,966.6 | 3,004.2 | 2,987.7 | 2,987.7 | 2,896.9 | 2,813.7 | 2,748.2 | 2,696.7 | 2,656.2 |
| Assets | 6,535.1 | 6,493.8 | 6,238.5 | 5,238.2 | 5,325.2 | 4,804.4 | 4,992.7 | 5,604.1 | 5,494.8 | 5,494.8 | 5,884.9 | 6,140.4 | 6,599.7 | 7,164.9 | 7,844.8 |
| Current Liabilities | 1,645.5 | 1,505.6 | 1,623.8 | 1,249.9 | 1,276.9 | 1,126.0 | 1,381.6 | 1,658.4 | 1,619.8 | 1,619.8 | 1,809.3 | 1,803.2 | 1,918.0 | 2,045.7 | 2,188.4 |
| Non-Current Liabilities | 2,256.4 | 2,580.4 | 3,357.2 | 3,321.4 | 3,556.6 | 3,520.5 | 3,524.9 | 3,541.2 | 3,541.2 | 3,541.2 | 3,541.2 | 3,541.2 | 3,541.2 | 3,541.2 | 3,541.2 |
| Liabilities | 3,901.9 | 4,086.0 | 4,981.0 | 4,571.3 | 4,833.5 | 4,646.5 | 4,906.5 | 5,199.6 | 5,161.0 | 5,161.0 | 5,350.5 | 5,344.4 | 5,459.2 | 5,586.9 | 5,729.6 |
| Shareholders' Equity | 2,633.3 | 2,407.8 | 1,257.5 | 666.9 | 491.7 | 157.9 | 86.1 | 404.5 | 333.8 | 333.8 | 534.5 | 796.1 | 1,140.6 | 1,578.0 | 2,115.2 |
| Cash | 892.8 | 869.5 | 1,079.2 | 594.5 | 630.0 | 499.4 | 461.6 | 452.2 | 757.4 | 757.4 | 1,056.5 | 1,469.8 | 1,833.8 | 2,271.3 | 2,791.1 |
| Debt | 2,101.6 | 2,326.4 | 3,123.1 | 2,855.9 | 2,846.8 | 2,998.9 | 3,250.8 | 3,252.8 | 3,252.8 | 3,252.8 | 3,252.8 | 3,252.8 | 3,252.8 | 3,252.8 | 3,252.8 |
| Net Debt | 1,208.8 | 1,456.9 | 2,043.9 | 2,261.4 | 2,216.7 | 2,499.5 | 2,789.3 | 2,800.6 | 2,495.4 | 2,495.4 | 2,196.2 | 1,783.0 | 1,418.9 | 981.5 | 461.7 |
| Minority Interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt/EBITDA | 1.5 x | 1.9 x | n/a | 60.2 x | 7.8 x | | | | | 5.2 x | 3.5 x | 2.5 x | 1.8 x | 1.1 x | 0.5 x |
| **Operating Metrics** | | | | | | | | | | | | | | | |
| Return on Equity (ROE) | 14.0% | 13.2% | -83.9% | -80.0% | -43.4% | | | | | -22.4% | 37.6% | 32.9% | 30.2% | 27.7% | 25.4% |
| Return on Assets (ROA) | 5.7% | 4.9% | -16.9% | -10.2% | -4.0% | | | | | -1.4% | 3.4% | 4.3% | 5.2% | 6.1% | 6.8% |
| Return on Invested Capital (ROIC) | 10.5% | 9.6% | -15.5% | -9.7% | 1.8% | | | | | 5.6% | 10.1% | 12.7% | 15.4% | 18.2% | 21.1% |
| **Valuation Metrics** | | | | | | | | | | | | | | | |
| Stock Price (High) | $ 30.47 | $ 34.26 | $ 31.56 | $ 17.92 | $ 17.07 | $ - | $ - | $ - | $ 20.22 | $ 20.22 | $ 20.22 | $ 20.22 | $ 20.22 | $ 20.22 | 20.22 |
| Stock Price (Low) | $ 19.83 | $ 24.87 | $ 13.04 | $ 9.26 | $ 9.20 | $ - | $ - | $ - | $ 20.22 | $ - | $ 20.22 | $ 20.22 | $ 20.22 | $ 20.22 | 20.22 |
| Stock Price (Average) | $ 25.15 | $ 29.57 | $ 22.30 | $ 13.59 | $ 13.14 | $ - | $ - | $ - | $ 20.22 | $ 10.11 | $ 20.22 | $ 20.22 | $ 20.22 | $ 20.22 | 20.22 |
| Diluted Shares Outstanding (Average) | 339.7 | 344.2 | 343.6 | 345.0 | 346.1 | 346.9 | 346.9 | 348.7 | 348.7 | 347.8 | 348.7 | 348.7 | 348.7 | 348.7 | 348.7 |
| Market Capitalization (Average) | 8,544.7 | 10,177.2 | 7,661.5 | 4,688.7 | 4,546.4 | - | - | - | 7,051.0 | 3,516.2 | 7,051.0 | 7,051.0 | 7,051.0 | 7,051.0 | 7,051.0 |
| Enterprise Value (Average) | 9,753.5 | 11,634.2 | 9,705.4 | 6,950.1 | 6,763.1 | 2,499.5 | 2,789.3 | 2,800.6 | 9,546.4 | 6,011.6 | 9,247.2 | 8,834.0 | 8,469.9 | 8,032.5 | 7,512.7 |
| P/E | 23.1 x | 32.0 x | n/a | n/a | n/a | | | | | n/a | 35.1 x | 27.0 x | 20.5 x | 16.1 x | 13.1 x |
| EV/EBITDA | 12.1 x | 14.9 x | n/a | 184.9 x | 23.8 x | | | | | 12.6 x | 14.6 x | 12.6 x | 10.7 x | 9.0 x | 7.4 x |
| FCF Yield to Market Capitalization | 7.1% | 4.9% | -10.4% | -2.9% | 3.6% | | | | | 1.1% | 5.9% | 7.4% | 6.6% | 7.5% | 8.5% |
| FCF Yield to Enterprise Value | 6.2% | 4.3% | -8.2% | -2.0% | 2.4% | | | | | 0.7% | 4.5% | 5.9% | 5.5% | 6.6% | 8.0% |
| **Free Cash Flow** | | | | | | | | | | | | | | | |
| EBIT | 540.9 | 519.2 | (335.7) | (234.3) | 39.2 | (149.8) | (46.1) | 384.2 | (58.1) | 130.2 | 484.7 | 571.7 | 690.1 | 814.9 | 949.5 |
| Tax Expense | (94.5) | (91.7) | (553.3) | (116.2) | (55.2) | (11.9) | (12.8) | (22.1) | 20.4 | (45.8) | (170.5) | (201.1) | (242.8) | (286.7) | (334.0) |
| D&A | 265.4 | 262.3 | 274.8 | 271.9 | 244.5 | 53.6 | 101.6 | 149.5 | 41.5 | 346.2 | 147.4 | 130.0 | 102.3 | 80.5 | 63.3 |
| Capital Expenditures | (111.8) | (122.1) | (168.2) | (77.8) | (65.8) | (23.9) | (10.4) | (14.6) | (24.9) | (73.9) | (56.6) | (46.8) | (36.8) | (29.0) | (22.8) |
| Changes in NWC | 5.6 | (72.5) | (16.7) | 19.4 | 1.8 | (52.3) | (253.8) | (369.7) | 359.4 | (316.4) | 7.7 | 68.4 | (45.9) | (51.5) | (58.0) |
| Unlevered Free Cash Flow | 605.6 | 495.3 | (799.1) | (136.9) | 164.5 | (184.3) | (221.5) | 127.3 | 338.3 | 40.3 | 412.6 | 522.2 | 466.9 | 528.3 | 598.0 |

### Valuation Summary

| Current Price | $ 20.22 |
|---|---|
| Target Price | $ 15.15 |
| Total Return | 33.4% |
| Recommendation | SELL |

| DCF Valuation | |
|---|---|
| Perpetuity Growth Implied Price | $ 19.51 |
| Exit Multiple Implied Price | $ 14.60 |

| Comps Valuation | |
|---|---|
| Comps - EV/EBITDA Implied Price | $ 11.91 |
| Comps - P/E Implied Price | $ 10.23 |

## Appendix 2: Discounted Cash Flow Analysis

### Discounted Cash Flow Analysis

| (Figures in mm USD) | Dec-15 FY2015 | Dec-16 FY2016 | Dec-17 FY2017 | Dec-18 FY2018 | Dec-19 FY2019 | Mar-20 Q1-2020 | Jun-20 Q2-2020 | Sep-20 Q3-2020 | Dec-20 Q4-2020 | Dec-20 FY2020 | Dec-21 FY2021 | Dec-22 FY2022 | Dec-23 FY2023 | Dec-24 FY2024 | Dec-25 FY2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

#### WACC Calculations

**Cost of Equity**

| | |
|---|---|
| Risk-free rate | 1.2% |
| Expected market return | 9.0% |
| **Market Risk Premium** | **7.8%** |
| Beta | 1.24 |
| **Cost of Equity** | **10.8%** |

**Cost of Debt**

| | |
|---|---|
| Pre-tax cost of debt | 1.0% |
| Effective tax rate | 35.2% |
| **Cost of Debt** | **0.7%** |

**WACC**

| | |
|---|---|
| Market value of equity | 7,051.0 |
| Market value of debt | 2,852.8 |
| **Total Capitalization** | **9,903.7** |
| Cost of equity | 10.8% |
| Cost of debt | 0.7% |
| **WACC** | **7.9%** |

#### Free Cash Flow

| | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | Q1-2020 | Q2-2020 | Q3-2020 | Q4-2020 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EBIT | 540.9 | 519.2 | (335.7) | (234.3) | 39.2 | (149.8) | (46.1) | 384.2 | (58.1) | 130.2 | 484.7 | 571.7 | 690.1 | 814.9 | 949.5 |
| Less: Tax expense | (94.5) | (91.7) | (553.3) | (116.2) | (55.2) | (11.9) | (12.8) | (22.1) | 20.4 | (45.8) | (170.5) | (201.1) | (242.8) | (286.7) | (334.0) |
| Add: Depreciation and amortization | 265.4 | 262.3 | 274.8 | 271.9 | 244.5 | 53.6 | 101.6 | 149.5 | 41.5 | 346.2 | 147.4 | 130.0 | 102.3 | 80.5 | 63.3 |
| Less: Capital expenditures | (111.8) | (122.1) | (168.2) | (77.8) | (65.8) | (23.9) | (10.4) | (14.6) | (24.9) | (73.9) | (56.6) | (46.8) | (36.8) | (29.0) | (22.8) |
| Less: Change in net working capital | 5.6 | (72.5) | (16.7) | 19.4 | 1.8 | (52.3) | (253.8) | (369.7) | 359.4 | (316.4) | 7.7 | 68.4 | (45.9) | (51.5) | (58.0) |
| **Unlevered Free Cash Flow** | **605.6** | **495.3** | **(799.1)** | **(136.9)** | **164.5** | **(184.3)** | **(221.5)** | **127.3** | **338.3** | **40.3** | **412.6** | **522.2** | **466.9** | **528.3** | **598.0** |
| Discount factor | | | | | | - | - | - | 0.25 | 0.25 | 1.25 | 2.25 | 3.25 | 4.25 | 5.25 |
| **Present Value of Unlevered Free Cash Flow** | | | | | | - | - | - | 331.9 | 331.9 | 366.4 | 440.0 | 364.6 | 382.2 | 401.0 |

#### Discounted Cash Flow Valuations

**Perpetuity Growth Method**

| | |
|---|---|
| **Perpetuity Growth Rate** | **2.0%** |
| PV sum of unlevered FCF | 2,286.2 |
| Terminal value | 6,919.1 |
| **Enterprise Value** | **9,205.3** |
| Add: Cash | 452.2 |
| Less: Debt | 2,852.8 |
| Less: Other EV adjustments | |
| **Equity Value** | **6,804.7** |
| Shares outstanding | 348.7 |
| **Implied Share Price** | **$ 19.51** |

| | |
|---|---|
| Current Price | $ 20.22 |
| Implied Price | $ 19.51 |
| **Total Return** | **-3.5%** |

**Exit Multiple Method**

| | |
|---|---|
| **Terminal EV/EBITDA Multiple** | **7.7 x** |
| PV sum of unlevered FCF | 2,286.2 |
| Terminal value | 5205.8 |
| **Enterprise Value** | **7,491.9** |
| Add: Cash | 452.2 |
| Less: Debt | 2,852.8 |
| Less: Other EV adjustments | - |
| **Equity Value** | **5,091.3** |
| Shares outstanding | 348.7 |
| **Implied Share Price** | **$ 14.60** |

| | |
|---|---|
| Current Price | $ 20.22 |
| Implied Price | $ 14.60 |
| **Total Return** | **-27.8%** |

**WACC**

| Perpetuity Growth Rate | 9.00% | 8.50% | 8.00% | 7.50% | 7.00% |
|---|---|---|---|---|---|
| 1.00% | $ 13.26 | $ 14.62 | $ 16.18 | $ 17.98 | $ 20.08 |
| 1.50% | $ 14.25 | $ 15.78 | $ 17.54 | $ 19.60 | $ 22.03 |
| 2.00% | $ 15.39 | $ 17.11 | $ 19.13 | $ 21.51 | $ 24.37 |
| 2.50% | $ 16.69 | $ 18.67 | $ 21.00 | $ 23.80 | $ 27.23 |
| 3.00% | $ 18.22 | $ 20.51 | $ 23.25 | $ 26.61 | $ 30.81 |

**WACC**

| Terminal EV/EBITDA Multiple | 9.00% | 8.50% | 8.00% | 7.50% | 7.00% |
|---|---|---|---|---|---|
| 5.7 x | $ 9.95 | $ 10.29 | $ 10.64 | $ 11.00 | $ 11.37 |
| 6.7 x | $ 11.80 | $ 12.19 | $ 12.58 | $ 12.99 | $ 13.41 |
| 7.7 x | $ 13.65 | $ 14.08 | $ 14.52 | $ 14.98 | $ 15.44 |
| 8.7 x | $ 15.50 | $ 15.97 | $ 16.46 | $ 16.96 | $ 17.48 |
| 9.7 x | $ 17.34 | $ 17.87 | $ 18.40 | $ 18.95 | $ 19.52 |

## Appendix 3: Company Comparable Analysis

### Comparable Company Analysis

*(Figures in mm USD)*

| Company | Ticker | Equity Value | Enterprise Value | EV/EBITDA Multiple | | | | | | P/E Multiple | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2020A EBITDA | 2021E EBITDA | 2022E EBITDA | 2020A EV/EBITDA | 2021E EV/EBITDA | 2022E EV/EBITDA | 2018A Diluted EPS | 2019E Diluted EPS | 2020E Diluted EPS | 2020A P/E | 2021E P/E | 2022E P/E |
| Hasbro, Inc | NASDAQ: HAS | 13,324.6 | 17,670.3 | 1,013.5 | 1,172.8 | 1,323.1 | 17.4 x | 15.1 x | 13.4 x | 3.6 $ | 4.49 $ | 5.33 | 27.0 x | 21.7 x | 18.2 x |
| Spin Master Corp. | TSX: TOY | 2,862.1 | 2,694.6 | 202.4 | 318.1 | 351.5 | 13.3 x | 8.5 x | 7.7 x | 0.6 $ | 1.33 $ | 1.59 | 46.8 x | 21.1 x | 17.6 x |
| Vtech Holdings Limited | SEHK:303 | 2,021.0 | 2,044.0 | 252.5 | 270.3 | 275.7 | 8.1 x | 7.6 x | 7.4 x | 0.8 $ | 0.76 $ | 0.78 | 10.6 x | 10.6 x | 10.3 x |
| **Mattel, Inc.** | **(NASDAQ: MAT)** | **7,051.0** | **9,451.6** | **476.4** | **632.1** | **701.8** | **19.8 x** | **15.0 x** | **13.5 x** | **(0.2) $** | **0.58 $** | **0.75** | **(94.2 x)** | **35.1 x** | **27.0 x** |
| **Median** | | | | | | | | **8.5 x** | **7.7 x** | | | | | **21.1 x** | **17.6 x** |
| **Mean** | | | | | | | | **10.4 x** | **9.5 x** | | | | | **17.8 x** | **15.4 x** |
| **High** | | | | | | | | **15.1 x** | **13.4 x** | | | | | **21.7 x** | **18.2 x** |
| **Low** | | | | | | | | **7.6 x** | **7.4 x** | | | | | **10.6 x** | **10.3 x** |

| | | | | EV/EBITDA Impliled Price | | | | P/E Implied Price | |
|---|---|---|---|---|---|---|---|---|---|
| Median | | | | $ 8.47 | $ 8.54 | | | $ 12.14 | $ 13.24 |
| **Mean** | | | | **$ 11.91** | **$ 12.19** | | | **$ 10.23** | **$ 11.55** |
| High | | | | $ 20.43 | $ 19.99 | | | $ 12.47 | $ 13.69 |
| Low | | | | $ 6.82 | $ 8.04 | | | $ 6.07 | $ 7.71 |

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