21 Great Winchester Street, London, EC2N 2JA Tel: 020 8828 2200 Email: enquiries@guybutler.co.uk

Mattel Inc

Ticker: MAT

Over the past several years Mattel (MAT) lost control over its operating processes and systems, fell behind digitally and socially, and allowed its key brands to stagnate. Currently amid a comprehensive plan to streamline product development and production, leverage its iconic brands, and return to profit, this is a business that now has a much clearer idea of where it wants to go and how to get there. The plan makes sense and initial signs are positive that they can succeed. We see this as a good company that has solvable problems, providing an opportunity for investors comfortable with the execution risk.

Isin	Issue Size	Rating M / S&P	Coupon	Min Piece	Maturity	Next Call	Offer	YTW	YTM
US577081BA97	$350mn	B3 / B+	2.35% s/a	$2k	Aug 2021	July 2021 @ 100	91.75	5.38%	5.38%
US577081AY82	$250mn	B3 / B+	3.15% s/a	$2k	Mar 2023	Dec 2022 @ 100	88.00	6.20%	6.20%
USU57619AB11	$1bn	B1 / BB-	6.75% s/a	$2k	Dec 2025	Dec 2020 @105.063	98.75	6.97%	6.97%
USU57619AC93	$500mn	B1 / BB	6.75% s/a	$2k	Dec 2025	Dec 2020 @105.063	99.50	6.84%	6.84%
US577081AU60	$250mn	B3 / B+	6.20% s/a	$2k	Oct 2040	-	86.25	7.48%	7.48%
US577081AW27	$300mn	B3 / B+	5.45% s/z	$2k	Nov 2041	May 2041 @ 100	82.50	6.98%	6.98%

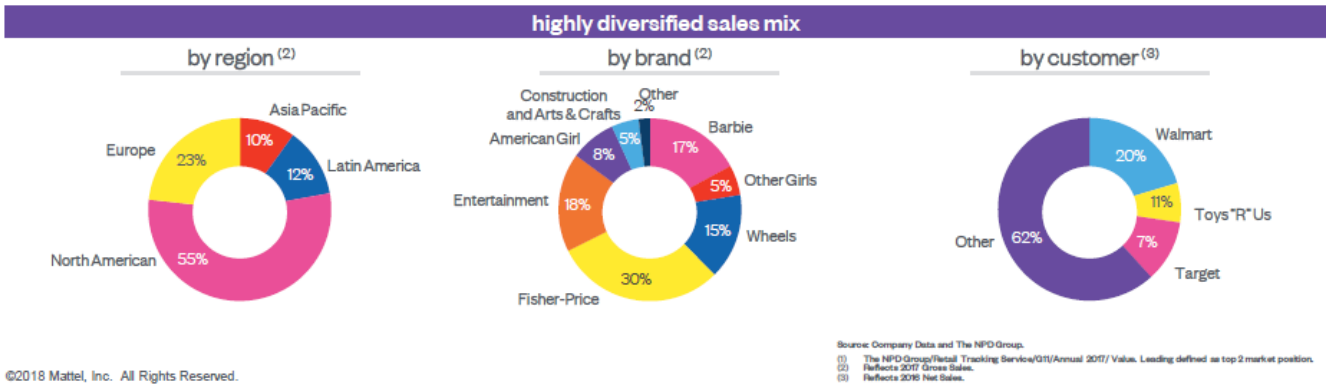
Bonds

All bonds above are issued out of the top holding company and are senior unsecured. We focus here on the $1.0bn and $500mn 6.75% bonds recently issued. They have slightly stronger covenants (not by much), plus the benefit of some guarantees from intermediate holdcos, hence the rating is a notch higher. Features include:

- Subordinate to the secured bank facilities as far as the latter's collateral is concerned, and structurally subordinated to non-guarantor subsidiaries, trade creditors and lenders. Non-guarantor subsidiaries capture the European, Australian, American Girl and Fisher-Price holdcos.
- In general, additional debt can be incurred if the FCCR remains at 2.00x or greater, although limited to the greater of $150mn or 2.5% of total consolidated assets ($126mn as at Q2). Specifically permitted debt includes leasing/capital finance the greater of $100mn or 1.5% of TCA ($76mn) and general debt incurrence (combined with refinancing debt) can be the greater of $300mn or 5.0% of total consolidated assets ($252mn).
- Restricted payments can be made up to $50mn plus 50% of consolidated net income (which is currently negative so the $50mn stands), with various carve outs, as well as $20mn p.a. (and up to $40mn if unutilised allowances from prior years are availed of) for management equity/stock option plans. A general restricted payments limit stands at the greater of $200mn or 3% of TCA ($152mn), and after that, any other payments can be made if the consolidated total net debt ratio does not exceed 3.75x.
- Change of control at 101 is only a factor if as a result MAT is rated, or is expected to be rated, below investment grade, 60 days after the change of control. MAT is already sub-investment grade anyway. Should MAT return to investment grade ratings from two out of three agencies, some covenants are suspended.
- Events of default include payment of principal or premium (immediately) and interest (30d), covenant or other agreement/obligation breach (60-75d), cross default and acceleration triggers at $100mn, as do any final legal judgments.
- Legal jurisdiction is New York. Overdue interest attracts interest at the rate of the coupon + 2.00%. Equity clawback is 40%.

Business

MAT's vision is to inspire the wonder of childhood as the global leader in learning and development through play. It was founded in 1944 and by the 1950s it was revolutionising toy marketing by advertising through the Mickey Mouse Club television show. Barbie arrived in 1959. Thereafter the company moved into educational preschool toys, created Hot Wheels diecast cars in 1968, and added electronic games in 1977. Since the late 1980s it has been maximising its core brands while simultaneously looking for new brands with potential to become core. Like many companies, MAT underwent considerable M&A activity in the 1980s-2000s. It makes use of extensive worldwide licensing agreements with the likes of Walt Disney and Warner Bros. It is now the global number 1 in the world in dolls, vehicles and infant/toddler/preschool, and number 2 in building sets and action figures & accessories. It has the broadest portfolio of brands for children 0-12yo. MAT uses both its own facilities and third-party manufacturers and sells mostly via retailers, but also directly to consumers.



Source: Toy Fair Analyst Meeting Presentation 16 Feb 2018

First listed all the way back in 1960, market cap currently stands at just under $5.2bn. MAT's performance has been in stark contrast to the overall equity market in recent years. The share price is currently coming off lows not seen since early 2009 as results stepped down annually until falling into loss in 2017. Between 2009 and 2013 MAT expanded its market leadership, but by its own admission grew complacent. From 2014 on it was slow to respond to market challenges. It lost the Disney Princess licence, launched a lot of new products, and increased SKUs dramatically, which elevated costs, but almost missed the shift to digital demand creation. From BBB ratings with S&P in 2010, it is now BB-.

Management Changes

Ynon Kreiz is the fourth CEO since the start of 2012, and has just taken over as Chairman and CEO following a short, but important, tenure by Margo Georgiadis. In a busy 15 months, she came in from Google, oversaw the development and initiation of the current major strategic and operational overhaul, and departed to lead Ancestry.com in May of this year. Kreiz had joined Mattel's board in June 2017, when the new strategy was unveiled, and had already been anointed to take over as chairman when Christopher Sinclair retires at the 2018 AGM. Kreiz' background is highly relevant to Mattel's current and future prospects. He was Chairman and CEO of Maker Studios (digital media and content network that was bought by Walt Disney Co) and Chairman & CEO of independent television production company Endemol. In addition, he led Fox Kids Europe (children's entertainment) and was a general partner at VC firm Balderton Capital (Benchmark Capital Europe). Importantly, he has stated his commitment to executing the plan Georgiadis put in place and has experience in both building and turning around businesses. This is now all about delivering.

Strategy

There were three main problems Georgiadis identified at MAT that brought it to this juncture:

- Brand franchise management mistakes in three crucial brands: Monster High, Disney Princess and American Girl.
- Too much focus on short-term financial metrics rather than long-term success.
- Not enough portfolio planning for new initiatives.

Combined, these meant a slump in revenue and margins. Although MAT did well to reduce expenses – SG&A was down $353mn between 2012 and 2016 – it did not do the complementary work of simplifying core processes, rationalising products and making necessary investment in IT. These are the operational areas MAT is now firmly focused on rehabilitating. At the same time, there are four main trends in the market that provide plenty of opportunity for MAT:

1. **Emerging markets** driving growth – estimated to grow 7.5% between 2017 and 2021 c.f. developed markets at 3.7%. EM represent 62% of the $20bn global growth expected.
2. Pivoting to a **digital & mobile** first world – developed markets are seeing accelerating growth in content consumption, i.e. watching, gaming and creating content.
3. **STEAM** (science, technology, engineering, art, mathematics) – a growing focus for millennial parents, particularly in the huge Chinese market.
4. Millennials seeking **purposeful brands & experiences**

The strategy to overcome MAT's challenges and take advantage of these market trends has five key components that are intended to transform the business over 12-24 months (from June 2017). Management believes it will return MAT to mid-to-high single digit revenue growth and operating margins of 15% or more.

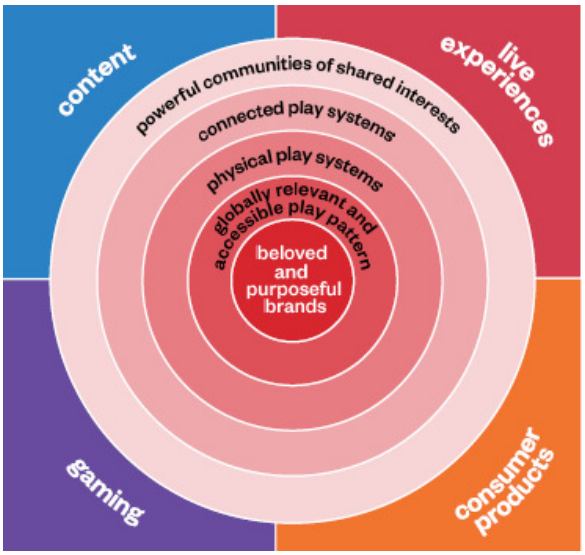
Source: Investor Day Presentation 14 June 2017

MAT moved quickly to address the company's culture with new hires and the company-wide relaunch of MAT's new

- **purpose** (inspire wonder in the next generation),
- **promise** (create experiences that capture kids' hearts, open their minds and unlock their potential through play); and
- **values** (WONDER – what if, why not; one team; nimble; driven; entrepreneurial; respectful).

The focus now is on building the 360° development framework, the innovation pipeline and structural simplification. Strategic investments and structural simplification are the priority for stabilising the top line and increasing profitability.

The first component – **building power brands** into connected 360° play experiences – is detailed here. With MAT's brands at the centre, where consumers connect with them, those brands' products have global appeal and availability. Broadening product ranges from the original physical toy, e.g. a car or a doll, starts with additional cars and dolls, accessories for those products, e.g. race tracks and dolls houses. MAT now adds the community element via social media such as YouTube and Facebook. They allow for scripted content, as well as user generated content, and can also extend the age range depending on the product/brand involved. Compared to all toy brands, Barbie has the largest combined YouTube and Facebook following.



Source: Investor Day Presentation 14 June 2017

Beyond the concentric circles, MAT will be aiming for 50-60% of brand revenue to come from consumer products, which is the best practice range already achieved by Thomas & Friends. Kids everywhere don't just watch Thomas the Tank Engine. They have the toys, read the books, wear the clothes and sleep under the duvet. Extending the power brands (Hot Wheels, Barbie, American Girl and Fisher-Price) towards that consumer product/toy sales mix is the goal. Each 5ppt improvement in the mix should mean c.$25mn added to annual profit. MAT has also identified strong gaming interest in its brands, with over 160mn downloads in the 18 months to June 2017 and potential annual revenue of $30-50mn.

Reshaping operations is crucial and MAT initially identified $150-200mn of savings from three areas:

- **Commercial realignment** – simplicity, best practices, omnichannel/ecommerce.
- **Transformations** of the **supply chain** and **IT systems**.

This means tighter working capital, faster routes to market and digital enabling. They are intended to support revenue and margin improvement, enhance demand planning and inventory management, embed customer segmentation and product insights and improve staff productivity.

In Q3 of 2017, MAT initiated its structural simplification cost savings program, aiming to remove $650mn of costs by the end of 2019. The key components include reducing manufacturing complexity (SKU numbers, process improvements), streamlining the organisational structure to align with the revenue base (including staff reductions) and getting the most from the advertising budget. MAT expects one-time severance and restructuring expenses of $205mn

to achieve those $650mn savings. Costs include $45mn charged in 2017, plus $160mn for split fairly evenly between 2018 and 2019. The intention is to use around $170mn of the savings to help pay for the changes.

Progress to Date

Of the $650mn savings, $260mn was due to be implemented during 2018. Management reported $104mn has been achieved so far, with another $65mn in the execution stage. Pure severance costs incurred included $38mn in 2017 and $19mn in Q1 2018. Against expected toy industry growth of 1% in 2018, MAT is looking to stabilise sales. Product launches will roll out during Q2-Q4 2018.

year on year key P&L impacts

	2018 vs 2017	2019 vs 2018
revenue	neutral	positive
strategic investments	negative	neutral
structural simplification cost savings	positive	positive
severance & restructuring	negative	neutral
interest expense	negative	neutral[1]
incentive compensation	negative	neutral

turnaround more likely a "U" than a "V" both for revenue & profitability

Source: Toy Fair Analyst Meeting Presentation 16 Feb 2018

Financials **YE 31 Dec 2017**

We can see from the past several years' results that Mattel has been losing ground: sales have declined significantly every year from their decade-long peak in 2013 despite the industry growing between 0.77% and 4.66% during those years. Margins have moved negatively as well, with gross margin down 40% over that time, while SG&A is almost 25% higher than five years ago. The failure of Toys 'R' Us (TRU) in late 2017 only exacerbated the problem. Despite that trend, Mattel did not actually fall into loss until 2017, but with plans for 2018 to be another year of working to reduce costs, and resulting benefits largely won't be seen until the second half of 2018. That leaves us with another poor year to navigate, with potential for more downside in both the equity and bond prices.

Annual $ millions	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17
Revenue	5,918	5,431	5,856	6,266	6,421	6,485	6,024	5,703	5,457	4,882
COGS	3,234	2,716	2,901	3,120	3,012	3,006	3,023	2,896	2,902	3,061
Gross Profit	2,684	2,715	2,955	3,146	3,409	3,479	3,001	2,806	2,554	1,821
Gross Margin	45.36%	49.99%	50.46%	50.20%	53.10%	53.65%	49.82%	49.21%	46.81%	37.30%
SG&A	2,143	1,984	2,053	2,105	2,388	2,311	2,347	2,265	2,035	2,164
SG&A Margin	36.21%	36.52%	35.06%	33.59%	37.19%	35.63%	38.97%	39.73%	37.30%	44.32%
Depreciation & Amortisation	172	170	166	161	174	196	249	265	262	275
Impairments	4	11	15	0	0	14	0	0	0	56
EBITDA	714	901	1,068	1,202	1,195	1,364	902	806	782	(68)
EBITDA Margin	12.06%	16.59%	18.23%	19.19%	18.62%	21.04%	14.98%	14.14%	14.32%	(1.39%)
Operating Profit	542	731	902	1,041	1,021	1,168	654	541	519	(343)
Operating Margin	9.15%	13.46%	15.40%	16.61%	15.90%	18.01%	10.85%	9.49%	9.52%	(7.02%)
NPBT	488	660	847	971	945	1,099	587	464	410	(505)

The table following shows the balance sheet has deteriorated as well, with debt almost doubling over the five years to $3.1bn, although that dropped back in Q1 to $2.9bn (seasonal). Tangible net worth descended into negative territory in 2017 ($778mn) for the first time in a decade. We saw trade receivables stretch out 10 days to 84, with the company citing increased activity in markets with longer payment terms. In contrast, inventory and trade creditors tightened up somewhat, which is more encouraging. We can see the combined effect in 2017's very low $70mn operating cash flow figure. This is a group used to generating an average of $820mn through the economic cycle, swinging from just under $500mn at the trough to $1.4bn at the peak. An immediate response was to cut the dividend from $518.5mn in 2016, to $312mn in 2017, and suspend it from Q4 2017.

Annual $ millions	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17
Cash & Equivalents	618	1,117.0	1,281	1,369	1,336	1,039	972	893	870	1,079
Trade Accounts Receivable	874	749	1,146	1,247	1,227	1,260	1,093	1,145	1,115	1,129
Inventory	486	356	464	487	465	569	562	588	614	601
Property Plant & Equipment	536	505	485	524	593	659	738	741	774	785
Goodwill	816	828	824	822	1,081	1,083	1,394	1,385	1,388	1,397
Intangibles - incl BRANDS	236	216	214	207	706	681	739	700	660	639
Trade Accounts Payable	422	351	406	335	385	375	430	652	665	572
Accruals	649	618	642	619	888	640	640	652	629	792
Total Debt	900	752	1,200	1,558	5,110	1,604	2,530	2,117	2,326	3,123
Tangible Net Worth	1,066	1,487	1,591	1,582	1,280	1,488	816	548	360	(778)
Leverage (x)	0.4	(0.4)	(0.1)	0.2	3.2	0.4	1.7	1.5	1.9	(30.0)
Trade Receivables Days	53.9	50.4	71.4	72.6	69.7	70.9	66.2	73.3	74.6	84.4
Inventory Days	54.8	47.8	58.4	57.0	56.4	69.1	67.9	74.0	77.2	71.6
Trade Creditor Days	47.6	47.1	51.1	39.2	46.7	45.6	52.0	82.1	83.6	68.2
Operating Cashflow	493	1,009	584	712	1,358	771	960	813	680	70
Cash Interest Paid	77	70	53	77	89	82	79	83	85	103
Operating Cash Interest Cover (x)	6.4	14.5	11.0	9.3	15.3	9.4	12.1	9.8	8.0	0.7
Capex	257	124	152	193	904	252	684	254	262	297

First half 30 June 2018

Revenue was down 9.4% compared to the first half of 2017, a mix of MAT's own issues, the TRU bankruptcy, a slight slowdown in China during Q2, and the comparison against the Cars 3 launch last year. There is no denying, though, that TRU was the main culprit. It caused the 7% reduction in Q1's gross margin thanks to the reversal of £30mn prior sales, and around three quarters of the reduction in sales seen during Q2. Finally, TRU added $57mn to SG&A costs, thanks to the related bad debt expense charged in Q1. On top of that, severance and restructuring costs amounted to $25mn in Q1 and $48mn in Q2. With the recently announced 2,200 headcount reductions in support and back office functions, MAT now expects full year SG&A to be lower versus 2017.

Annual $ millions	Q1 2017	Q2 2017	*1H 2017*	Q1 2018	Q2 2018	*1H 2018*
Revenue	736	974	*1,710*	708	841	*1,549*
COGS	457	575	*1,032*	490	588	*1,077*
Gross Profit	279	400	*679*	219	253	*472*
Gross Margin	37.90%	41.02%	*39.68%*	30.90%	30.12%	*30.47%*
SG&A	404	449	*853*	495	442	*938*
SG&A Margin	54.98%	46.05%	*49.89%*	69.93%	52.62%	*60.54%*
Depreciation & Amortisation	65	64	*129*	69	68	*137*
Impairments	0	0	*0*	5	7	*12*
EBITDA	(61)	15	*(46)*	(208)	(121)	*(329)*
EBITDA Margin	(8.31%)	1.58%	*(2.67%)*	(29.35%)	(14.36%)	*(21.21%)*
Operating Profit	(126)	(49)	*(175)*	(277)	(189)	*(466)*
Operating Margin	(17.07%)	(5.03%)	*(10.21%)*	(39.05%)	(22.50%)	*(30.07%)*
NPBT	(146)	(74)	*(219)*	(314)	(234)	*(548)*
Cash & Equivalents	382	275	*275*	527	229	*229*
Trade Accounts Receivable	807	918	*918*	676	780	*780*
Inventory	770	936	*936*	678	715	*715*
Property Plant & Equipment	784	808	*808*	757	720	*720*
Goodwill	1,397	1,394	*1,394*	1,397	1,390	*1,390*
Intangibles - incl BRANDS	659	661	*661*	635	612	*612*
Trade Accounts Payable	932	549	*549*	977	429	*429*
Accruals	450	452	*452*	579	429	*429*
Total Debt	2,315	2,642	*2,642*	2,872	2,928	*2,928*
Tangible Net Worth	(799)	12	*12*	(775)	(1,338)	*(1,338)*
Leverage (x)	2.7	3.6	*3.6*	(10.9)	(7.7)	*(7.7)*
Trade Receivables Days	98.7	84.8	*97.1*	85.9	84.4	*91.1*
Inventory Days	151.7	146.6	*164.2*	124.6	110.8	*120.2*
Trade Creditor Days	183.6	86.0	*96.4*	179.7	66.4	*72.1*
Operating Cashflow	(288)	(222)	*(510)*	(233)	(244)	*(477)*
Cash Interest Paid	22	22	*44*	41	43	*85*
Operating Cash Interest Cover (x)	(13.1)	(10.1)	*(11.6)*	(5.7)	(5.6)	*(5.6)*
Capex	80	69	*149*	47	31	*78*

With the worst of cost pressures due to work through the P&L during the first half of the year, margin improvement should start to emerge in the second half, although management revised its full year gross margins down with the Q2 results. Rather than the low-40s originally expected, MAT is now guiding for gross margin in the high-30s for 2018.The revision was prompted by:

- a shift in some COGS reductions from 2018 to 2019, thanks to a broader scope of manufacturing reassessment;
- higher than expected input cost inflation; and
- higher freight costs, an issue affecting many industries.

Come the end of 2018, MAT will have locked in $500mn of the $650mn cost savings programme, which will provide a significant boost to performance in 2019, during which the final $150mn should be achieved. Aside from the small revision down for gross margin, and lower SG&A costs compared to 2017, here is what MAT is aiming for over the balance of 2018:

key P&L trends & drivers

as reported at actual

	2014A	2015A	2016A	2017A	2018E	comments/drivers
gross margin %	49.8%	49.2%	46.8%	37.3%	low 40's	structural simplification & improvements in mix & line architecture
advertising (as a % of sales)	12.2%	12.6%	11.6%	13.2%	11% - 13%	consistent with historical range of 11-13% of sales, aided by zero-based budgeting
SG&A	$1.6B	$1.5B	$1.4B	$1.5B	up slightly vs. prior year	strategic investments, increased incentive & severance/restructuring costs
EBITDA	$915MM	$815MM	$767MM	-$125MM	up vs. prior year	improvements in gross margin & advertising partially offset by increase in SG&A
capital expenditures	$260MM	$254MM	$262MM	$297MM	~$200MM	lower investment spend on automation and tooling and no further spend on American Girl flagship store
interest expense	$79MM	$85MM	$95MM	$105MM	up vs. prior year	increased due to high yield bond issuance (~$60MM impact)

Source: Toy Fair Analyst Meeting Presentation 16 Feb 2018

Despite being delayed, a full-year low-40s gross margin will mark a significant milestone in operating performance if achieved, and there are already reasons to think it can be. Q2, always a quiet quarter, showed improvement on Q1 in both SG&A, EBITDA and operating margin. Working capital days are all showing improvement compared to 2017 despite the TRU issue. In constant currency terms, sales of Barbie and Hot Wheels were up 18% and 11% respectively in Q1, and 12% and 22% in Q2, thanks to working the 360° play experience part of the strategy. There is plenty of upside there for the taking as they work through the brand portfolio and launch new products. MAT just needs to execute the plan without significant glitches. If they can do that, they should be on their way back to annual profits, strong cash flows and lower leverage.

Peers

Looking at some of Mattel's peers, it has clearly fallen behind, but with hard work, it can put itself back in the black and in the top half of the margins we see below. Certainly, against Hasbro and Spin Master, operating margins of 15% look a sensible and achievable target over the next two to three years.

$ millions	Hasbro Inc 31 Dec 2017	Jakks Pacific 31 Dec 2017	Lego 31 Dec 2017	Mattel Inc 31 Dec 2017	Spin Master 31 Dec 2017
Revenue	5,210	613	5,315	4,882	1,551
Gross Profit	2,034	156	3,760	1,821	800
Gross Margin	39.04%	25.39%	70.74%	37.30%	51.60%
SG&A	31.22%	33.65%	35.17%	44.33%	37.02%
EBITDA	1,034	(30)	1,823	(68)	276
Operating Profit	862	(72)	1,613	(343)	231
Operating Margin	16.55%	(11.68%)	30.35%	(7.03%)	14.88%
NPBT	786	(81)	1,549	(505)	220
Operating Cashflow	800	21	1,625	70	270
Cash Interest Paid	89	9	5	103	3
Operating Cash Interest Cover (x)	9.0	2.4	331.6	0.7	92.5
Cash & Equivalents	1,581	65	123	1,079	117
Inventory	433	58	385	601	120
Property Plant & Equipment	260	23	1,861	785	33
Total Debt	1,849	160	29	3,123	1
Tangible Net Worth	1,040	37	4,784	(778)	249
Leverage (x)	0.3	(3.1)	(0.1)	(30.1)	(0.4)
Brands	Play-Doh, Monopoly Transformers Playskool, Jenga My Little Pony Nerf, Scrabble	Morfboard Powertrains, Disney Princess, Frozen, Moana, DC Super Hero Girls	Lego Duplo	Barbie, Hot Wheels Fisher-Price Thomas & Friends American Girl Bob The Builder Disney Pixar Toy Story Star Wars	Meccano, Hatchimals Paw Patrol, Luvabella Airhogs, Star Wars Etch A Sketch, Spy Gear Tech Deck

Funding

MAT has worked effectively to extend its maturities. It redeemed the $250mn bond at maturity in March this year and tapped the 6.75% $1bn 2025 issue at the end of May, subsequently redeeming the 2.35% May 2019 bond. That bumps up interest expenses, but frees up management time to focus entirely on the strategic plan for the remaining 18-month implementation period, which would otherwise have reached its denouement at almost the same time as 2019 bond. The 2020 bond matures in October, so there is wiggle room in the timeline.

Debt Maturities $ millions	2018	2019	2020	2021	2022	2023	2024	2025+	Total
Asset Backed Lending Facility				1,306					1,306
Revolver				294					294
Bonds			250	350		250		2,050	2,900
Total	**0**	**0**	**250**	**1,950**	**0**	**250**	**0**	**2,050**	**4,500**

MAT's syndicated senior secured revolving credit facility is split between the asset backed facility and the revolver. The ABL is subject to a borrowing base supported by accounts receivable and inventory. Subfacilities operate the same way in their respective geographic locations (European and Australian entities), but foreign subfacilities have guarantees from the US borrowers and guarantors as well as from foreign guarantors. The revolver is secured by certain fixed assets and intellectual property of the US borrowers and certain equity interests in various MAT subsidiaries ("Fixed Asset & IP Facility"), subject to borrowing base capacity. Subfacilities have jurisdiction-based calculations of the borrowing bases and carry margins ranging from 1.25% - 3.00% for adjusted LIBOR rates or 0.25%-2.00% for alternate base rate lending (at the borrower's option), with margins based on average borrowing remaining under the senior secured revolving credit facilities.

Senior facilities carry a fixed charge coverage ratio maintenance covenant set at 1.00:1.00, tested quarterly when the excess available is less than the greater of $100m or 10% of the aggregate amount available. It must continue to be tested until excess availability ($160mn threshold) has been exceeded for at least 30 consecutive days. To date the revolver has not been drawn, so covenant testing has not been in effect. All in all, the funding profile is under control.

View

MAT has finally heard the clear and persistent wake-up call and is addressing its problems. It's certainly capable of generating good profits and cashflow when it gets it right. With the maturity profile pushed out and a plan on track so far, management has time and space to reinvigorate its core brands and streamline its operations. Although it's early in the turnaround process, we believe it can complete it successfully.

Please contact the desk if you have any questions.

Penelope Fitzherbert

17 August 2018