Company Analysis Project for Mattel, Inc.

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Finance 331
**Introduction/Recommendation:**

This report focuses on a company analysis of Mattel in order to give investors information that will help them decide whether or not to purchase stock in this company. First you will be able to gain a better understanding of the company through a summary of their profile, activities, and goals. Also an analysis of the industry ratios to those of Mattels’ will give investors information about the company’s operations, liquidity, income, liabilities etc. As well as an evaluation of Mattel’s price estimates and returns will give insight into where the company’s finances have been, where they are now, and where they will go in the future. Mattel’s consistency in the long run and their ability to appeal to many different markets and consumers makes its’ stock appealing. Based on this company analysis I would recommend this stock to investors.
**Company Summary:**

Mattel is the largest manufacturer of toys in the United States. They are responsible for creating well-known brands, like Barbie, Fisher-Price, Hot Wheels, and the American Girl doll collections. Within the Mattel market are products based off of famous characters and children’s programs. These include Harry Potter, Barney, Winnie the Poo, Spiderman and other superheroes, as well as many characters from Nickelodeon and Disney. Their main objectives stem from their belief that leadership gives them the incentive to create and sustain a business of the future, through their employees and their customers actions. These ideals have led them down a road of success not just here at home, but also internationally. Their headquarters is located in El Segundo, California, but many more facilities can be found throughout North America, Central and South America, Asia, and Europe.

**Management Vision:**

With recent operations having fallen short of expectations, Mattel is taking steps to improve its recent difficulties. To increase its market share they are planning to modify its most successful markets. From enhancing Barbie’s appeal, to adding more media driven incentives to Fisher-Price products, and continuing to expand its successes; like the American Girl collection. Also the increasing prices of oil (a key ingredient in making many of their products) have caused steady increases in production and transportation costs. They hope to improve their share net growth through a buyback program that allows for share repurchasing. In addition, the diversity of products within this company gives them the means to control the majority of the toy market. Therefore, presenting them with the opportunity to expand to many different areas and markets, as well as to help them compensate for times when products have fallen short of expectations.
Something else that has helped to improve their growth and market share is the recent interest in several key characters from big movie blockbusters; such as Spiderman, Harry Potter, Superman, and Disney’s Cars.

**Competitive Environment:**

Mattel has the largest share of the market, meaning they have almost a monopolistic competitive edge within many different segments. However more recently some companies have found a way to compete with them. For example, companies like Hasbro Incorporated and JAKKS Pacific Incorporation, which also specialize in toy and game manufacturing. Also Mattel had found competition within its segmented markets; this means that smaller firms with specialized products are contending with several of Mattel’s key brands. For example, the Da Brat doll line has become a major competitor against Mattel’s Barbie. Also companies like Marvel Enterprises, who specialize in creating various comic book products, have become another contender. One other form of competition has come from Wal-Mart, which because of its diversity has hurt and even closed Mattel-owned businesses such as Toys R’Us and FAO.
Mattel’s Company Ratios:

**EBIT:** \[652049 + 76490 = 728539\]

**Liquidity Ratios:**

Net Working Capital: \[2412500 - 1463185 = 949315\]

Working Capital: \[2412500\]

Current Ratio: \[
\frac{2412500}{1463185}
= 1.65
\]

Quick Ratio: \[
\frac{(2412500 - 376897)}{1463185} = 1.39 \text{ (TEXTBOOK)}
\]
\[
\frac{(997734 + 760643)}{1463185} = 1.20 \text{ (THOM)}
\]

Cash Ratio: \[
\frac{997734}{1463185} = .682
\]

Net Working Capital To Total Assets: \[
\frac{949315}{4372313} = .217
\]

**Long-Term Solvency Ratios:**

Debt Ratio: \[
\frac{(4372313 - 2101733)}{2270580 + 2101733)}
= \frac{2270580}{4372313}
= .52
\]

Long-Term Debt Ratio: \[
\frac{525000}{525000 + 2101733} = .20
\]

Debt-to-Equity: \[
\frac{2270580}{2101733} = 1.08
\]

Long-Term Debt to Equity: \[
\frac{525000}{2101733} = .25
\]

Equity Multiplier: \[
\frac{4372313}{2101733} = 2.08
\]

Times Interest Earned: \[
\frac{(652049 + 76490)}{76490} = 9.52
\]

Cash Coverage: \[
\frac{(728539 + 1145559)}{76490} = 24.50
\]

**Profitability Ratios:**

Operating Profit Margin: \[
\frac{728539}{5179016} = .13
\]
Net Profit Margin: \( \frac{417019}{5179016} = .08 \)

**Asset Management Ratios:**

Inventory Turnover: \( \frac{2806148}{376897} = 7.45 \) (TEXTBOOK) \( \frac{5179016}{376897} = 13.74 \) (THOM)

Day Sales in Inventory: \( \frac{365}{7.45} = 48.99 \) (TEXTBOOK) \( \frac{365}{13.74} = 26.57 \) (THOM)

Receivables Turnover: \( \frac{5179016}{760643} = 6.81 \)

Days Sales in Receivables: \( \frac{365}{6.81} = 53.59 \)

Net Working Capital Turnover: \( \frac{5179016}{949315} = 5.46 \)

Fixed Asset Turnover: \( \frac{5179016}{547104} = 9.47 \)

Total Asset Turnover: \( \frac{5179016}{4372313} = 1.185 \)

**DuPont Analysis:**

ROA: \( \frac{417019}{5179016} * \frac{5179016}{4372313} = .08 * 1.18 = .095 \) or 10%

ROE: \( .10 * 2 = .20 \) or 20%
**Ratio Analysis of Mattel vs. Industry:**

Many assumptions can be made through a comparison of ratios for Mattel and the Game, Toy, and Children’s Vehicle Manufacturing industry. Data used to make these assumptions comes from a series of ratios associated with liquidity ratios, long-term solvency ratios, profitability ratios, asset management ratios, and DuPont Analysis. First it’s important to note that both the industry and Mattels current ratios are both positive because they are greater than one. However, Mattels is higher, indicating that their firm has better liquidity in the short run. The quick ratios for Mattel show a smaller difference between their quick ratios and their current ratio, while the industries are both significantly different. This means that more than half of the industry’s assets are in inventory. Also the cash ratios indicate that Mattel can liquidate it assets and short term liabilities .68 times, while the industry can in .14 times. The debt ratio suggests that Mattel uses .10 times less debt than the industry. However, the long-term debt for Mattel is only .1 times smaller than the industry ratio. This means that while both ratios are very close together, Mattel has less debt in the long-run. The data for the debt to equity, long-term debt ratio, and equity multiplier ratio show larger ratios for the industry; meaning it is more risky to invest in this firm when compared to Mattel. The inventory turnover ratio indicates that Mattel is more efficient in managing inventory than the industry because their ratio is higher; meaning Mattel sold off or turned over their inventory that many more times than the industry. Days sales in inventory ratios show that it will take Mattel 26.57 days to sell its inventory. For the industry it takes 40.49 days; this further supports the figures that indicated that Mattel was more efficient in managing its inventory. According to receivables turnover, Mattel will collect on its credit accounts 6.81 times, three times less than the industry. The days sales in receivables suggests that Mattel will take 53.59 days to collect on its outstanding credit sales, while the industry will
take only 37.09 days. According to total asset turnover the industry generates more sales per 
every dollar in assets. The same is true for the fixed asset turnover, where Mattels fixed asset 
turnover is almost half that of the industry. Also the ROA ratio (after taxes) indicates that Mattel 
has a slightly larger return on assets, thus greater profitability. However, the ROE ratio shows 
that the industry has a slightly larger ratio than Mattel. This means they used its reinvested 
earnings better than Mattel. Lastly, Mattel has a higher profit margin than the industry, making it 
more appealing to investors.
Estimates of Returns and Price:

1. **P/E Ratio:** \[ \frac{21.5+17.5+16.2+15.2+15.4}{5} = 17.16 \]
   
   This ratio shows how much investors are willing to pay per dollar for the stock. Since this P/E ratio is higher than the value line estimate this could signify that there is a good chance for growth in the near future.

2. **EPS Estimate(2007):** 1.25
   
   This estimate shows what the current earnings per share of stock are.

3. **Dividends per Share(2007):** .55
   
   This is how much will be paid to stakeholders per share of stock.
   
   **Growth rate:** \[ \frac{.55}{.35} \times (1/7) - 1 = 6.67\% \]
   
   This rate shows the growth of dividends. This rate is important to stakeholders because it gives them an idea of dividends growth trend; whether it is declining or going to become more successful.

4. **Rate of Return:** \[ .05 + .70(\text{.11-.05}) = .05 + .70(.05) = .085 \text{ or } 8.5\% \]
   
   The rate of return is the discount rate or present value of future cash flows on an investment. This means the 8.5% is the rate that the investment is paying during some period of time. It’s also important to note that the Beta used in this is formula (.70) has less systemic risk, and therefore may not have greater expected returns.

5. **Intrinsic Value:** \[ .55/(8.5-6.67) = 34.38 \]
   
   This is the value the stock would be worth if it were about to expire/end.

6. **Price Estimate:** \[ 17.16 \times 1.25 = \$21.45 \]
   
   This estimate determines value; for this estimate this price is greater or worth more than the estimate provided on the value line summary; meaning the stock is worth more than recent price suggests.
Summary:

All in all, the changes being made too Mattel’s management and operations strategies should boost and continue a positive trend for several of their key products. With these changes, the market should respond well, increasing the value of this company’s stock. Also important to consider is Mattel’s long and widely renowned history as the United States largest manufacturer of toys. As well as their almost monopolistic advantage in the market. Their ratio analysis and price estimates also suggest that, while there has been a trend of declines then improvements in recent years, it appears that there is now a trend of steady improvement taking place. Overall Mattel is an appealing stock option.