First Quarter 2022

Financial Results Conference Call Management Remarks

April 19, 2022

Debbie Hancock, Hasbro, Senior Vice President, Investor Relations:

Thank you and good morning, everyone.

Joining me today are Chris Cocks, Hasbro's chief executive officer, and Deb Thomas, Hasbro's chief financial officer. Today, we will begin with Chris and Deb providing commentary on the Company's performance. Then we will take your questions. Cynthia Williams, president of Wizards of the Coast and Digital Gaming; Darren Throop, president and CEO of eOne; and Eric Nyman, Hasbro's president and chief operating officer, will join for the Q&A portion of the call.

Our earnings release and presentation slides for today's call are posted on our investor website.

The press release and presentation include information regarding Non-GAAP adjustments and Non-GAAP financial measures. Our call today will discuss certain Adjusted measures, which exclude these Non-GAAP Adjustments. A reconciliation of GAAP to non-GAAP measures is included in the press release and presentation.

Please note that whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

Before we begin, I would like to remind you that during this call and the question and answer session that follows, members of Hasbro management may make forward-looking statements concerning management's expectations, goals, objectives and similar matters.

There are many factors that could cause actual results or events to differ materially from the anticipated results or other expectations expressed in these forward-looking statements.

These factors include those set forth in our annual report on form 10-K, our most recent 10-Q, in today's press release and in our other public disclosures.

We undertake no obligation to update any forward-looking statements made today to reflect events or circumstances occurring after the date of this call.

I would now like to introduce Chris Cocks, Chris.

Chris Cocks, Hasbro CEO

Good morning.
I am happy to be joining you today to discuss Hasbro's first quarter results and share the efforts our leadership team are undertaking to assess the business and strategic direction of Hasbro. Deb Thomas will speak shortly in detail about our quarterly performance that supports our view of growth for the year.

In Q1, our Hasbro teams executed well growing revenue to $1.16 billion, a 4% year-over-year increase and 7% absent our music business which we sold last year at the beginning of Q3. Revenues grew in each segment.

One of the stand-out performers for the quarter was our latest MAGIC: THE GATHERING release, *Kamigawa: Neon Dynasty*, which is our best-selling Winter set of all time beating the prior year's set by 28%. Neon Dynasty is the 5th MAGIC set to generate in excess of $100 million and is our third largest set ever. Our overall games portfolio grew 4% and would have been even stronger; however, we moved our March MAGIC release, *Unfinity*, to September to help our supply chain to keep up with robust demand for the base MAGIC business. Our Consumer Products segment also showed growth buoyed by MY LITTLE PONY, PEPPA PIG, and Hasbro products for the Marvel portfolio and Star Wars. And our industry-leading entertainment capabilities drove a revenue increase of 4%, or 22% excluding $31.8 million of music revenue from last year. TV, Film and animated content drove the growth including deliveries of *The Rookie*, which was just picked up for Season 5; the premiere of *Transformers: Botbots* which was a Top 10 Kids series on Netflix in its first week; and *Power Rangers Dino Fury* which was also one of the Top 10 Most Watched Kids Shows on Netflix in all markets it launched.

For the full year, we continue to project top-line growth in the low-single digits behind continued strength in our highly profitable Wizards & Digital Gaming business which we now see growing at the upper end of our previously communicated growth range of mid-single digits with a potential to reach low-double digits. We continue to expect the Entertainment segment to grow mid-single digits, absent the music business, combined with low-single digit growth in the Consumer Products segment. Projected growth in Consumer Products would be mid-single digits absent an approximate $100 million headwind related to Russia.

On a bottom-line basis, since taking over as CEO our team has commenced a comprehensive review of our strategy and operations. A major theme of this effort is Focus and Scale: focusing on fewer, bigger opportunities and scaling those with reinvestment to drive profitable growth and enhanced shareholder return. We'll share a more fulsome update on this strategy at an Investor Day we are scheduling for October 4th but we are already identifying opportunities to drive enhanced operating profit across the Company particularly when coupled with the continued strong demand we are seeing in our Games business.

For the year, we are increasing our outlook for operating profit and anticipate adjusted Operating Profit margins of 16%, a meaningful improvement vs. last year's 15.5%. I'm also pleased to report based on the solid, profitable fundamentals we see across our Company, starting in Q2, we will resume our share repurchase program with a target investment in the $75 to $150 million range in 2022.

As part of this review, Games, Multi-Generational Play & Entertainment, and Direct to Consumer will be key focus areas for us as a Company. In 2021, Games was a $2.1 billion business for Hasbro growing 19% year-over-year generating an OP margin in excess of 30%.

Last week we announced a deal with Fandom to acquire D&D Beyond, the premier digital content platform for DUNGEONS & DRAGONS, for $146 million. The addition of D&D Beyond to our Games portfolio adds a powerful asset to one of our cornerstone gaming brands. D&D Beyond brings nearly 10 million connected gaming accounts and a highly profitable, rapidly growing business into the Hasbro family. With a 3-year revenue CAGR of over 50%, a projected operating profit margin once combined with Hasbro in excess of 65% and powerful new growth vectors as part of Hasbro including international market expansion, enhanced digital play experiences, physical-digital tie-ins, all new direct-to-digital exclusive content and new brand partnerships, we see a bright future for DUNGEONS & DRAGONS. And we only see these opportunities growing over time as we invest in an end-to-end Brand Blueprint for DUNGEONS & DRAGONS including blockbuster films and streaming TV, AAA video games, a major consumer products push and significant marketing tie-ins. D&D Beyond is more than just a great business, it will become the digital hub of DUNGEONS & DRAGONS play that our Brand Blueprint will enhance and accelerate.

Multi-generational play is a significant growth opportunity for us. It may surprise many that Hasbro generates the majority of our profit among consumers over the age of 13. Much of this is generated by gaming, but also by collectibles and the fan economy which are one of our fastest growing and most important growth businesses. We see a big opportunity in embracing the "agelessness of play" as we unlock more value through play and entertainment across our portfolio among our own brands, in our strategically important Partner Brand portfolio and in the partner IP we work with for co-brands. Our license partnerships go forward will further unlock and enhance this profitable opportunity.

As an example of this approach, we are excited to announce the return of one of the most beloved sports collectibles brands of all time, STARTING LINE UP. The relaunch of STARTING LINE UP gives us a new product line to appeal to fans of all ages in a fast-growing category, with many more exciting partnership announcements to come in the near future.

STARTING LINE UP joins a collection of some of the most sought-after collectors' brands in the world including Fortnite, Disney's Marvel, Indiana Jones and Star Wars, and fantasy juggernauts the Lord of the Rings and Warhammer 40,000. Our new approach to brand partnerships combines IP with terrific multi-generational appeal, strong growth profiles supported by evergreen AAA games and blockbuster entertainment and a superior margin outlook.

STARTING LINE UP and D&D Beyond also represent important investments in our Direct To Consumer capabilities. STARTING LINE UP will launch exclusively on Hasbro Pulse, our direct-to-consumer platform, and across the Fanatics Network this Fall and D&D Beyond brings the largest online collection of DUNGEONS & DRAGONS players onto a platform owned and operated by Hasbro. Combined they represent both compelling businesses and a great opportunity to enhance our growing insight into some of our most lucrative and engaged fans.

Before I turn it over to Deb, I want to welcome a new member to our senior management team. Shane Azzi is joining us in May as our new Chief Global Supply Chain Officer reporting to Eric Nyman, Hasbro's President and COO. Shane was the SVP and Chief Global Supply Chain Officer at CPG powerhouse, Kimberly-Clark, and will help us modernize and streamline Hasbro's backend operations over the coming quarters. I'm excited to have a supply chain expert of Shane's caliber and experience join our executive leadership team and look forward to his contributions in our ongoing strategy review as we Focus & Scale, drive our Games business, expand our Multi-Generational Play & Entertainment opportunities, and build out our Direct capabilities.

In closing, Hasbro executed a solid first quarter punctuated by continued strength in our Games business, particularly Wizards and Digital Gaming which we view growing at the top end of our previous guidance for 2022. We project continued growth in 2022 and see clear opportunities to enhance the profitability of our business and invest: in new direct capabilities like D&D Beyond, new collectible platforms like STARTING LINE UP, and in enhancing shareholder value with these strategic investments for growth including our share repurchase program.

It's only been a little over 100 days since my announcement in January, but my hope is you see the same energy and discipline in these investments and focus on our consumers as we pursued across the Wizards business for the past six years. And we are only just beginning. Our approach to our strategy review will be comprehensive evaluating our brand priorities, our cost structure, our capital allocation strategy and where we need to position Hasbro for long-term success and superior shareholder return. The management team and I are looking forward to sharing more about our plans to Focus & Scale at our Investor Day this October. I'd now like to turn the presentation over to Deb to share more details about our performance in the first quarter and our outlook for the year ahead. We will follow this up with a Q&A session where Cynthia, Eric and Darren will join Deb and I on the call.

Deb Thomas, Hasbro CFO

Thanks Chris and good morning, everyone.

Coming off a strong 2021, the Hasbro team delivered a good start to the year. We are excited to have Chris on board, and as he did with Wizards of the Coast, he is looking at Hasbro with a fresh view - to our rich opportunities and strengths, bolstered by a disciplined approach to build on the solid foundation in place. We look forward to sharing more with you as the year progresses and in October at our Investor Day.

First quarter revenue grew 4%, and 6% on a constant currency basis. Each segment had revenue growth. The Brand portfolio categories grew and TV/Film/Entertainment was flat, but grew 19% absent music.

Our total gaming category grew 4% versus the first quarter last year, to $379 million. Total gaming has grown in 10 of the last 12 quarters, reflecting the multi-generational power of connecting through games. For the full-year 2021, our total games category was over $2 billion in revenue, with an OP margin in excess of 30%. We continue investing to grow our gaming capabilities and leadership.

At current exchange rates, we expect full-year revenue growth in the low-single digits. As we focus on building scale around our largest and most profitable brands, growing our games portfolio, and tightly manage our fixed costs, we've increased our operating profit growth guidance to mid-single digits and believe we can achieve 16% adjusted OP margin.

The first quarter of 2022 experienced the cost pressures we anticipated and guided to. Higher capitalized input and freight costs in year-end inventory had a negative impact on gross margin. Freight costs remain high, impacting both cost of sales and distribution.

Adjusted operating profit was $141.8 million, or 12.2%, down from a year ago due to higher product input costs and freight, the mix of entertainment deliveries in the quarter and the sale of the music business mid-2021.

Consumer Products segment revenues grew 5% in constant currency and grew 3% including a negative impact of FX of $13.5 million. Strength in Partner Brands, primarily Marvel and Star Wars, and Emerging brands, primarily POWER RANGERS and PJ MASKS, led this growth. Franchise Brands slightly declined due to FX, with PEPPA PIG and MY LITTLE PONY posting good growth. Hasbro Gaming revenues were flat absent FX. Geographically, revenue grew in the Americas, - the U.S., Canada and Latin America- and declined in Europe. Absent the impact of FX, European revenues were up. Due primarily to COVID-related retail closures and inability to ship product, Asia Pacific revenues declined 19%, with FX not having a significant impact in these markets.

Adjusted operating profit for the segment declined by $13.4 million dollars. The decreased profit reflects higher product cost and freight expense. As we have previously discussed, price increases take effect in the second quarter to help offset higher costs and support our view to growing revenue low-single digits and improving adjusted operating profit margin.

Wizards of the Coast and Digital Gaming segment revenues grew 9% in the quarter. MAGIC: THE GATHERING and DUNGEONS & DRAGONS, as well as DUEL MASTERS contributed to growth. Foreign exchange had a negative $3 million impact. Tabletop revenues increased on the strength of *Kamigawa* as well as growth in DUNGEONS & DRAGONS. Digital revenues grew by $3.7 million. This reflects continued growth in last year's MAGIC and DUNGEONS & DRAGONS digital gaming launches. We do not have similar launches this year and will have more difficult comparisons for the remainder of 2022.

As Chris mentioned, last week we announced the acquisition of D&D Beyond from Fandom. This investment provides a platform for growing the DUNGEONS & DRAGONS digital business over time, coming in advance of the brand's deeper activation including a March 2023 feature film and significant consumer product plans. Due to acquisition costs, the transaction is expected to be slightly dilutive to EPS, although immaterial, in 2022, but accretive in future years.

Operating profit for the segment declined by $3.6 million, or 3%, to 40.5%. This is due to higher product costs associated with our tabletop business, both in card stock and printing, increased freight costs and ongoing headcount and product development investment to support the growing business, both near and long term. In order to mitigate significantly higher input costs, we expect to implement price increases mid-year. We continue to expect the second quarter to be the largest of the year, but now expect full-year mid-single digit to potentially low-double digit revenue growth and adjusted operating margin declining slightly from 42.5% in 2021.

Entertainment segment revenues increased 4% primarily due to increased deliveries in unscripted and scripted television, the resumption of live touring shows and higher content sales related to animated programming. These increases were largely offset by revenue from the music business, which was $31.8 million in the first quarter of 2021. As a reminder, the music business was sold mid-year 2021, and the negative comparison will also impact the second quarter. Absent music revenue in 2021, the segment revenue grew 22%. Foreign exchange had a negative $1 million impact in the quarter. For the full year, we continue to expect revenue growth, absent the music business, in the mid-single digits.

Adjusted operating profit in the segment declined by $20.9 million over 2021, and $12.7 million excluding the music business. Approximately half of this decline in operating profit was due to COVID-related cost subsidies received in the first quarter of 2021, and the remainder is due to the mix of lower margin deliveries, particularly in the film and scripted television business. For the second quarter, based on planned deliveries, revenue is expected to increase over the 2021 period, and adjusted operating profit margin is expected to decline slightly due to the music profits in the comparable period. For the full year, adjusted operating profit margin is expected to be in the high-single digits.

Looking at our overall Hasbro P&L,

Gross margin, including cost of sales and program amortization, was 59.5% of net revenues compared with 65.3% in the first quarter of 2021. As discussed in the segments, increased input costs and higher freight drove a 2.6 percentage point increase as a percent of revenue in cost of goods sold, while the mix of entertainment deliveries drove a 3.2 percentage point increase in program amortization. Based on the expected mix of our business and the timing of price increases taking place, we expect cost of sales as a percentage of revenue in Q2 to be slightly lower than Q1, with the full-year percentage to be in line with full-year 2021. Based on expected deliveries, program amortization, as a percentage of revenue, is currently expected to be slightly higher than Q2 2021 levels in the second quarter and end full-year 2022 at a slightly lower level than 2021.

To improve product in stocks this holiday season versus last, we are advancing deliveries of key items in our owned inventory, so that we can ensure it is on hand. This lets us take advantage of best available rates, but with increased shipping times, also ensures that we do not have issues with setting inventory in high consumer demand periods. Additionally, to ensure we have paper stock on hand for strong demand in our high margin, growing games business, we have purchased paper product. Gaming is a strategic growth driver, and we will continue to ensure we have the right supply and investments behind these brands.

Historically, inventory purchases peaked in the August to December timeline. In 2022, we expect this peak to occur in the May to July timeframe. Higher cost in inventory, and an approximately 20% acceleration in purchases in the first quarter are reflected in our inventory balance, which is 17% higher than year-end 2021. We expect to have higher levels on hand, or on the water, in the earlier part of the year than historically.

Advertising declines were driven by lower spend in Entertainment with the sale of the music business, as well as lower spend in Wizards and Digital Gaming for launch support of both *Arena* mobile and *Dark Alliance* in 2021.

SD&A for the quarter includes higher marketing and sales and administrative costs associated with salary and benefits in our commercial and brand organizations, increasing travel costs, and higher freight and warehousing. For the full year, we expect SD&A as a percentage of revenue to be similar to 2021.

Other income, net was $1.8 million dollars. In 2021, the first quarter included a $25.6 million gain, or $0.19 per share, from a legal settlement. Absent that gain, other income was slightly lower year-over-year.

The first quarter tax rate was 20.4% of adjusted income. Based on currently enacted tax law, we continue to expect our full-year 2022 adjusted rate to be in the 19-20% range. The low rate in Q1 of 2021 was due to the legal settlement included in other income, which did not have a tax impact.

In our historically and consistently smallest quarter of the year, adjusted earnings per share decreased year-over-year to $0.57 due to a combination of continued supply chain headwinds, non-recurring events and the shift in a MAGIC release.

At the end of the first quarter, our cash balance was $1.06 billion, compared with a year-end balance of $1.02 billion, and Q1 2021 of $1.43 Billion. Over the last 12 months we paid down more than $1 billion in debt and returned $376 million to our shareholders in the form of dividends. Given our cash position and business outlook, we plan to repurchase $75-$150 million of Hasbro shares this year. We remain on track to achieve our gross debt to adjusted EBITDA target of 2.0 to 2.5X in the second half of 2023 or sooner.

Our operating cash flows for the first quarter of $135 million, reflect the advanced inventory purchasing I spoke to earlier and an increase in Accounts Receivable related to our entertainment business revenue.

Our DSO is 73 days compared with 66 days in Q1 2021, when we were only just starting to resume entertainment deliveries after COVID production shutdowns. Our cash spend on production for the quarter was $169 million, and was largely funded through the use of our new short-term production facility, which carries lower interest and administrative costs than those of the past, and the proceeds of which is included in financing cash flows.

Overall, the team delivered a good first quarter. Our momentum in strategic growth areas like gaming, coupled with strong product innovation, a robust entertainment slate and a focus on cost discipline give us confidence in maintaining our revenue guidance of low-single digit growth for the full year while increasing our expectation for adjusted operating profit margin to reach 16%.

We are now happy to take your questions.