Hasbro Fourth Quarter and Full-Year 2021
Financial Results Conference Call Management Remarks
February 7, 2022

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

Thank you and good morning, everyone.

Joining me today are Chris Cocks, Hasbro's incoming chief executive officer; Rich Stoddart, Hasbro's interim chief executive officer; and Deb Thomas, Hasbro's chief financial officer. Today, we will begin with Chris, Rich and Deb providing commentary on the Company's performance. Then we will take your questions. Eric Nyman, Hasbro's incoming President and chief operating officer, will be joining us for Q&A.

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 Incoming CEO (Effective February 25, 2022)

Thanks Debbie and welcome everyone joining today. I'm thrilled to be starting as Hasbro's CEO later this month and overwhelmed by the outpouring of well wishes from employees, partners and stakeholders since the announcement. The positive response is a testament to this amazing company and the wonderful people, brands and fan communities around the world that make it so special.

Hasbro is unique in our ability to create cherished childhood memories that translate into lifelong favorites. Our brands span toys that inspire wonder to collectibles that showcase passion; board games that bring families together to gaming systems with thriving global fandoms; and animation that delights children to feature films and video games that engage audiences of all ages.

As CEO, I'll be working with our team focused on three long-term priorities:

First and foremost is "**Driving Growth with the Brand Blueprint**." At the heart of Hasbro is the Brand Blueprint. It enables us to expand the value of our brands and capabilities as we engage our fans across all aspects of play and entertainment - from consumer products to games to streaming TV shows; executing through our owned and operated assets and the best partners in the industry. We've seen significant success with this strategy with brands as varied as PEPPA PIG, TRANSFORMERS and most recently MY LITTLE PONY; and I'm excited as we extend its benefits to more brands from PLAY-DOH to MAGIC: THE GATHERING to our upcoming blockbuster movie and AAA video games with DUNGEONS & DRAGONS.

Our next focus area will be "**Multigenerational fan engagement**." Play isn't just for kids anymore. It's a lifelong pursuit. Gen Z's favorite brands are the ones they play with, that surround them with engaging experiences, and Millennials and Gen X aren't far off. We are creating omni-media play and entertainment that spans age ranges, connects people together and is passed along generation to generation.

Lastly, "**New Growth Opportunities: Specifically, Games & Direct**." At $2.1 billion and 19% year-over-year growth, Hasbro is one of the biggest and fastest growing games publishers in the world. Our investments in digital and direct to consumer give us an amazing opportunity to forge tighter relationships with our most valued customers, to learn from them in real time via cutting edge data analytics and to reinvent how we bring product to market and customize it for our most passionate fans. While the whole Blueprint generates immense value for Hasbro, look for us to put particular focus on these fast-growing businesses as we take our portfolio to the next level.

Underlying these priorities will be a **laser focus on capital allocation**: how we invest in the business, prioritize our brands, and drive total shareholder return, while paying down debt, maintaining an investment grade rating and returning cash to shareholders. We'll be sharing more insights about how we will drive our Blueprint strategy, extend our fan engagement, and grow our gaming and direct to consumer assets in the quarters to come, underpinned by a strong sense of purpose and commitment to our planet and people.

In the meantime, my focus will be squarely on partnering with Deb, Darren, Cynthia and Eric on executing with excellence to deliver our growth plans as well as meeting with the stakeholders who help make Hasbro, Hasbro.

I want to end with a special thank you to Rich Stoddart. Rich came onboard 5 months ago after the tragic loss of Brian Goldner, our beloved leader of nearly 15 years. Using uncommon care, a natural insight from his time serving on our board and strong and steady leadership he helped guide us to exceptional results. Rich, your insights and leadership will be amazing assets as the new Chair of our Board of Directors and I'm looking forward to working with and learning from you as we grow Hasbro in the years to come.

Rich Stoddart, Hasbro Interim CEO

Thank you, Chris.

The global Hasbro team finished the year strong, delivering full-year results above our guidance, including 17% revenue growth, a 40-basis point improvement in adjusted operating profit margin, 23% growth to $1.3 billion in adjusted EBITDA and over $800 million in operating cash flow. Deb and I are very proud of the Hasbro team and all they accomplished in the past several months.

Throughout the year and especially in the fourth quarter, we successfully navigated supply chain challenges across the business -- delivering another record year for Wizards of the Coast; growing consumer products revenue for the year and fourth quarter; and achieving robust content deliveries above 2019 levels in our entertainment business. The Brand Blueprint strategy is driving profitable growth across our diversified portfolio, and Hasbro's unique set of strategic assets provide the foundation for maximizing the value of both our existing franchises and new IP.

We have and are investing significant capital around the Blueprint – expanding and growing our powerful gaming portfolio, including in MAGIC:THE GATHERING and DUNGEONS & DRAGONS; building deeper and more valuable brands; telling compelling stories to global audiences; and in developing our talented teams. Our commitment to disciplined, strategic investments over the long term has built a differentiated business with diversified capabilities to drive profitable growth and enhance shareholder value.

This is evident in our performance last year:

First, Gaming. With a portfolio of $2.1 billion that grew 19%, Hasbro's gaming portfolio is among the biggest, most profitable and fastest growing combinations of gaming brands across face to face, tabletop and digital platforms in the world.

It's led by MAGIC: THE GATHERING and 2021 was MAGIC's best year ever. Over the past five years we've invested close to $1 billion to drive 150% growth in high margin revenue and position us for growth in the coming years across tabletop and digital gaming. These investments are meaningfully expanding our tabletop products and creating best-in-class digital game capabilities, while recruiting and retaining world-class talent. We are very excited to have Cynthia Williams joining us later this month from Microsoft as President of Wizards of the Coast and Digital Gaming to lead this team as Chris transitions to CEO of Hasbro. Chris orchestrated a tremendous period of growth and expansion for Wizards and has invested to position the business and team for continued success.

The consistent growth of MAGIC is a testament to the long-term durability of our strategy, led by doubling down on collectability, expanding the MAGIC product suite to maximize relevance across consumer segments, and giving players exciting and compelling worlds to participate in.

In digital, *Magic: The Gathering Arena's* launch on mobile has been impressive, generating significant growth with continued high engagement from our players of around 9 hours per week. The launch of Mobile more than doubled our pre-launch monthly average users at its peak and has since settled into a sustained 50% increase in our average monthly active users as Mobile has become a key way for our fans to access their favorite strategy game.

We have only begun to unlock the value of the digital gaming potential of the Wizards brands and capabilities of the team. In 2021, digital gaming revenue -- including the high-margin licensed digital gaming business -- grew 36% and represented 26% of the segment. Tabletop gaming revenue represents the largest piece of the segment, at 74% of the total, and grew 44% for the year.

We have significant plans to leverage the power of Wizards' brands across the Blueprint for both current fans and to expand our reach to new players and fans. This begins with the *Magic: The Gathering* Netflix series coming later this year, and, in 2023, the planned theatrical release of the

DUNGEONS & DRAGONS feature film. Furthermore, these upcoming releases will harness the full potential of our Brand Blueprint, with a comprehensive sales and marketing plan across our organization including special edition tabletop and card set releases, digital games, a robust Hasbro toy line and expansive licensed consumer products. Our many years of investment in these brands and in building assets to drive growth around the Blueprint, position us to leverage them in bigger and more powerful ways for years to come.

Last year also marked the successful relaunch of another iconic Hasbro Franchise Brand. Led by the expertise of the eOne team, *My Little Pony: A New Generation* drove the MY LITTLE PONY brand through the animated feature film that was #1 in the Netflix Kids Top 10 in more than 80 countries on opening weekend, driving high viewership and audience engagement. The film fueled greater than 100% growth in toy and game point of sale in the fourth quarter versus last year and double-digit growth in licensed consumer products for the year. With a significant multi-year content road map led by eOne and a deep and innovative merchandise program, we believe MY LITTLE PONY is positioned to reclaim its place as a leading global lifestyle brand through expansive Blueprint activation.

PEPPA PIG and PJ MASKS are further examples of valuable brands for which the combination of Hasbro and eOne is accelerating the growth and opportunity. In August, we launched the first Hasbro toys and games for these leading preschool brands. We had a very strong first few quarters in the market and have gained share in preschool toys. PEPPA PIG was one of our top brand growers last year, and as we shifted licensed revenue to in-sourced revenue in toys and games, the team was still able to grow licensed consumer products revenue double digits, highlighting the powerful reach of PEPPA PIG across categories. In recognition of the relevance and success of the brand combined with the opportunity ahead, we have elevated PEPPA PIG to a Franchise Brand, and will begin reporting this with our first quarter earnings. It is a clear indication of the potential value of this brand we acquired with eOne.

As we think about powerful brands, our Partner Brand portfolio is activating some of the most valuable entertainment brands in the industry. We grew Partner Brand revenue 8% last year, with significant growth in Hasbro products for the Marvel portfolio, led by the *Spider-Man* franchise including products in support of the feature film *Spider-Man: No Way Home* and the animated new show *Spidey and his Amazing Friends*.

We also grew revenue for Hasbro's line of *Star Wars* products, despite a strong fourth quarter last year with Season 2 of *The Mandalorian*. We recently announced an extension of our *Star Wars* license and are excited to have added the *Indiana Jones* franchise, with product in the market next year supporting the theatrical release. Hasbro is proud to maintain a strong connection with The Walt Disney Company, the creator of some of the most celebrated and everlasting entertainment franchises and looks forward to continuing its storied relationship with new product lines for *Star Wars, Indiana Jones*, and Marvel, including Marvel's *Avengers* and Marvel's *Spider-Man*, in the future.

In addition, we have exciting initiatives with new and expanding partners as diverse as Fortnite to Roblox, and we see a bright future for our Partner Brand portfolio with higher profit growth in the mid to long term.

Finally, while I've highlighted several entertainment successes that are driving brands today and in the future, the entertainment segment had a very successful year, delivering revenues above 2019 levels when adjusted for the music business, which we divested during 2021. With amazing shows, like *Yellowjackets, Cruel Summer, Graymail* and *The Rookie*, and the return of film deliveries, including *Clifford the Big Red Dog* and *Finch*, the eOne team delivered compelling content across platforms. Importantly, eOne has been focused on developing a strong pipeline of content for Hasbro brands and we've seen an incredible response from the market. In 2021, we started to see that pipeline converted into greenlights, production and releases to be activated across the Brand Blueprint.

In closing, it has been a true honor to work with the Hasbro team as interim CEO over these past several months. The entire Hasbro family has my deep gratitude for their tremendous focus on delivering at a high level. I especially want to thank Deb Thomas for her strong and steady leadership during such an important time. This year's results position Hasbro for continued growth and to continue driving shareholder value. With consumers, brands, and storytelling at the center, and purpose at our core, we have made, and are making, significant investments across the business, and in our people, to drive capabilities, insights, and innovation to support our long-term growth.

I am excited to see Chis and Eric take on their new roles later this month and confident that Hasbro will thrive under their leadership.

I'll now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Good morning, everyone. As Rich said, we are incredibly proud of the performance by the Hasbro team over the past several months to turn in an outstanding year. This includes full-year double-digit growth in revenue, operating profit, earnings and adjusted EBITDA. We grew revenue across segments, brand portfolios and geographies. Wizards and Digital Gaming had its best year ever, doubling the size of the Wizards business two years earlier than anticipated. We furthered the integration of eOne launching new, increasingly Hasbro-brand led content campaigns as well as Hasbro's line for PEPPA PIG and PJ MASKS. We remain on track to achieve the $130 million run rate of cost and insourcing synergies by the end of this year.

We strengthened our balance sheet –paying down over $1 billion in debt, ending the year with over $1 billion in cash and, after reducing our debt to adjusted EBITDA last year by 1.7X to 3.1X, we are on track to hit our target of 2.0 to 2.5X by year-end 2023; and we invested across Hasbro to profitably grow for the long term, while returning cash to shareholders including a 3% increase in the quarterly dividend announced today and effective with our next dividend payment in May.

Our 2021 results and current year outlook support our view to growth and value creation over the coming years.

For the year, revenue grew 17% year-over-year and 8% versus pro forma 2019. MAGIC: THE GATHERING, NERF, PEPPA PIG, MY LITTLE PONY, TRANSFORMERS, and Hasbro products for the Marvel portfolio led the year-over-year growth, along with a return of entertainment production and deliveries notably in TV, streaming and animation.

The Wizards of the Coast and Digital Gaming segment had a phenomenal year, growing revenue 42%, operating profit 30% - ending the year with an operating profit margin of 42.5%; and adjusted EBITDA was higher by 36%. We had success in both tabletop and digital gaming led by MAGIC: THE GATHERING and DUNGEONS & DRAGONS. We have significantly invested to drive these brands for current and future growth.

Consumer Products segment revenues grew 9% year-over-year. Robust demand for Hasbro products, strategic pricing action and significantly improved execution in markets like Latin America and Asia drove a 170-basis point operating margin expansion, more than offsetting the higher freight and input costs as well as supply chain challenges incurred during the year. Adjusted EBITDA grew 18%.

The team managed supply and delivered strong revenue growth, but our product in stock levels were lower than target. Part of this was due to demand above our plan and part due to continuing supply chain disruption.

To help us maintain Consumer Product segment operating profit margins at or above 2021 levels, we have price increases scheduled to take effect in the second quarter to offset the anticipated continuation of supply chain challenges and resulting higher input and freight costs.

Entertainment segment revenue increased 27% for the year, exceeding 2019 pro forma levels of revenue when adjusted for the sale of the music business. Adjusted operating profit grew 13% and Adjusted EBITDA increased 76% for the full-year 2021.

Adjusted operating profit increased due to higher revenue and lower administrative costs, partially offset by higher program cost amortization associated with more deliveries, the mix of content and higher overall costs related to Covid.

Overall adjusted operating profit grew 20% and operating profit margin expanded on a favorable mix of revenues, strategic pricing which partially offset higher costs, at the same time investing in product innovation and advertising behind brands and entertainment.

On a reported basis, Other (income) expense, net included a $54 million pre-tax non-cash, non-operating charge associated with our investment in the Discovery Family Channel. The pandemic has accelerated changes in the cable distribution industry, and networks have seen a decline in linear subscribers.

During the over 10-year life of our investment, we have recorded more than $1.1 billion of merchandise revenue related to Hasbro programming on the channel, averaging more than $100 million per year. Since reducing our ownership from 50% to 40% in 2014, we have recorded approximately $130 million of non-operating investment income, or an $18.5 million annual average. This investment has delivered a strong return for Hasbro.

Turning to tax, the full-year underlying tax rate, absent non-GAAP charges and discrete items, was 21.3%. The lower adjusted rate of 15.8% was the result of favorable discrete items from audit settlements, synergies from the integration of eOne, and tax planning. For 2022, our underlying rate, absent non-GAAP charges and discrete items, is expected to decline to approximately 20.5% with an adjusted rate expected in the 18-20% range as we do not predict the same level of favorable discrete items we had in 2021.

As I said to start, our balance sheet is strong.

Accounts receivable increased 8% vs. 17% revenue growth as collections remained strong. After declining 17 days last year, DSO declined another 6 days to 68 days, with improvement across Hasbro led by our entertainment business and international commercial markets.

The inventory we had at year end is of very high quality. Our aged inventory is well below historical levels, but the levels we have on hand and at retail are higher than last year. For both owned and retail inventory, this reflects a significant increase in the amount of inventory in transit as lead times from China have increased about 3 times, on average. Hasbro-owned inventory also reflects higher freight and product costs. These higher capitalized costs are expected to have a negative impact on gross margin in the first quarter prior to price increases taking effect.

For 2021, we reported an adjusted EPS of $5.23 per share.

As you think about 2022 EPS, I want to walk through several items:

First, as a reminder, in the first quarter 2021, we realized a non-operating gain of $25.6 million from a legal settlement. This translated to $0.19 per share in Q1 2021 and this will not have a comp in the current year.

Second, we sold the eOne music business in Q3 of last year. This represented $65.2 million in revenue and $16.9 million in adjusted operating profit during the first half of 2021, which would equate to approximately $0.08 per share on the full year.

Finally, following Brian's passing, there was an accelerated contractual vesting of certain equity awards in the fourth quarter. Diluted share count is expected to increase, from 138.4 million for the full-year 2021 to approximately 141 million for full-year 2022 on a weighted-average basis.

As we look ahead, we are investing today to build bigger more powerful brands around the Brand Blueprint. These investments are in innovation, in capabilities, in storytelling and in our people.

Coming off a year of double-digit revenue and operating profit growth, for 2022 we expect revenue and adjusted operating profit to grow in the low-single digits and deliver operating profit margin expansion as well as operating cash flow in the range of $700 to $800 million. Adjusted EBITDA is expected to be in line with the $1.3 billion achieved in 2021.

Looking at our segments, in 2022 we expect the Wizards and Digital Gaming segment to grow in the mid-single digits. We continue to invest to grow this high-return business over the near and long term. Over the medium term, as we expect to see acceleration beginning in 2023, we are targeting compound annual revenue growth in the high single to low double-digits and operating margins to remain above 40%.

The toy and game industry has grown at an above trend growth rate the past two years, and we expect that to slow or decline in the coming year, but we are well positioned with new initiatives and great content.

We believe we can continue to grow the Consumer Products segment through innovative brand campaigns including a full year of PEPPA PIG and PJ MASKS; continued growth in MY LITTLE PONY as we accelerate around the Blueprint through a strategic and well-placed content roadmap from eOne supporting merchandise plans; and new entertainment for key Partner Brands like Marvel and *Star Wars*. While our rights expire for Disney Princess and *Frozen* at the end of 2022, we are very excited about our continuing relationships with Disney for Marvel, *Star Wars* and *Indiana Jones* and the product offerings around these brands. The Disney Princess and *Frozen* business has averaged approximately $250 million in revenue per year for Hasbro, peaking in 2019 with the last *Frozen* film.

We expect to grow our Consumer Product segment revenue in the low-single digits in 2022 as we execute the rich and valuable portfolio of Hasbro and Partner Brands and increasing to a mid-single digit growth rate over the medium term, including greater operating profit margin expansion in 2023 and beyond.

In the Entertainment segment, with high demand for content as well as theatrical improving, the entertainment industry is expected to continue growing. Combined with our robust entertainment slate, we anticipate 2022 growth in the Entertainment segment in the mid-single digits, absent the Music business which was sold in 2021. As we activate more Hasbro-branded content, we expect revenue to grow in the high single to low double-digits over the medium-term with higher growth in operating profit and adjusted EBITDA to drive margin expansion.

Our cash spend on content for this year is expected in the range of $725 to $825 million to support content development and deliveries over a multi-year period. Notably we are planning significant initiatives executed across the Brand Blueprint in consumer products, gaming and entertainment; including, feature films for *Transformers: Rise of the Beasts* and DUNGEONS & DRAGONS, that are expected to accelerate revenue and operating profit growth in 2023.

For the medium-term through 2024, we expect revenue growth in the mid-single digits on a compound annual basis. Each segment has strength on its own, but as we have seen over time, the greatest return comes from the broad portfolio that as part of our Brand Blueprint strategy delivers greater value. Importantly, we expect the financial benefits of our combined capabilities to grow over time. By year-end 2023 operating profit margin is expected to exceed 16% and operating cash flow should reach approximately $1 billion.

In closing, long-term investments in our brands and capabilities have built a differentiated business with diversified capabilities to drive long-term profitable growth and enhance shareholder value. These investments have benefited not only 2021 but are designed to benefit years to come. After delivering a high-quality year, we are positioned for further growth in 2022 and on track for greater revenue growth and greater operating profit expansion in 2023 and beyond as we leverage our investments in building brands and capabilities across the Brand Blueprint to drive profitable growth for the long term under a strong leadership team.