Hasbro Fourth Quarter and Full Year 2012
Financial Results Conference Call Management Remarks
February 7, 2013

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good afternoon everyone.

Our fourth quarter & full year earnings release was issued this afternoon and is available on our website. Additionally, also available on our web site, are presentation slides containing information covered in today's earnings release and call. The press release and presentation include information regarding Non-GAAP financial measures included in today's call. Please note that whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

This afternoon, Brian Goldner, Hasbro's President and Chief Executive Officer, and Deb Thomas, Hasbro's Chief Financial Officer, will review our financial results and discuss important factors impacting our performance. Following their statements, David Hargreaves, Hasbro's Executive Vice President Corporate Strategy and Business Development, will join Brian and Deb to field your questions.

Before we begin, please note 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. These forward-looking statements may include comments concerning our product and entertainment plans, anticipated product performance, business opportunities, plans and strategies, costs, financial goals and expectations for our future financial performance.

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.

Some of those factors are 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. You should review such factors together with any forward looking statements made on today’s call.

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

Now, I would like to introduce Brian Goldner.

Brian Goldner, Hasbro President and CEO:

Thank you, Debbie.

Good afternoon everyone and thank you for joining us today.

In 2012, Hasbro made significant strides toward accomplishing many objectives we set and communicated for the Company. Specifically,

- We grew 2012 EPS to $2.81 versus $2.74 per share in 2011, including a ten cent negative impact of foreign exchange. This excludes restructuring charges in both years and a tax benefit in 2011.
- We returned the U.S. & Canada segment to historical operating profit margins, despite lower revenues in the year. In turn, overall operating profit margins for Hasbro increased to 14.7% before charges.
- We leveraged our international investments, growing our emerging markets revenues 16%. These are markets in which we have significantly invested over the past several years. Importantly, we delivered better than breakeven profit for all major emerging markets outside of China one year ahead of plan.

- We grew the Games category against an objective of stabilization and improved operating profit margins in the category.
- We grew revenue in our Girls category, driven by FURBY and MY LITTLE PONY's brand innovation and immersive experiences;
- And, although we did not originally state this goal, we grew Entertainment and Licensing segment revenue and operating profit in a year following a major TRANSFORMERS motion picture.

However, 2012 revenues declined $197 million. This reflects a negative $99 million impact from foreign exchange and a more than $100 million reduction in retail inventories.

As we outlined for you earlier this year, we employed a proven approach to rebuild our U.S. business, much the way we have driven our international markets. It involved shipping inventory later in the year to be more in line with consumer demand, supported by increases in marketing spending.

Unfortunately, this holiday season we saw a rapidly changing, more challenging retail environment. Lower point of sale trends from Thanksgiving to just before Christmas did not enable us to realize year-end shipments as strong as we had anticipated. There was a concern at retail about purchasing too much inventory later in the year given weak point of sale trends leading up to Christmas. Point of sale did improve significantly at year end, but that demand did not result in additional shipments for Hasbro. Importantly, we ended the year with lower retail inventory in the U.S. as well as lower inventory on hand at Hasbro. This puts us in a strong position to begin 2013.

We recognize our industry is changing. In fact, to address these changes we have been investing over the past several years to build our capabilities supporting our brands and our brand blueprint. Tomorrow, at our Toy Fair event, we will walk you through the evolution of the blueprint and speak to the next stage, the Brand Blueprint 2.0.

As we continue to accelerate the transformation of our company while operating in markets with new consumer and retail dynamics, we have outlined a company-wide cost savings initiative designed to deliver $100 million in annual savings by 2015. Our 2012 fourth quarter results include a pre-tax charge of $36 million related to the initial implementation of this program and we anticipate $20-30 million in additional charges in 2013. We expect to realize 2013 net savings of $15-$25 million with the remaining of the savings being fully recognized by 2015 as all aspects of the plan are implemented.

We are reviewing the organization from top to bottom to identify cost savings opportunities. To date these include an approximate 10%

reduction in work force, including an early retirement offering, facility consolidation, the continuation of our item and SKU count reduction programs and the implementation of process improvements.

Over the past several years we've invested in strategic growth opportunities for Hasbro. We've added new brand building capabilities while eliminating many historical SKU-making behaviors. We will continue investing strategically for the long-term where we anticipate strong returns on that investment, but we are accelerating our cost savings efforts to reflect the market environment and our strategic decision to focus on fewer, more significant initiatives, and working to ensure that in any environment we continue to enhance our total shareholder returns.

Now, let's take a look at 2012. We had a number of successful brand initiatives for Hasbro:

We had a record year with our Marvel partnership supporting two great films, MARVEL's THE AVENGERS and THE AMAZING SPIDER-MAN, building on the tremendous brand innovation and story-telling from MARVEL combined with the global scope and strong consumer-oriented approach of Disney. We are very excited about growing our partnership with Disney and will spend some time tomorrow during our presentation outlining some of our two companies' global brand building opportunities.

Also last year, FURBY launched in English speaking markets and delivered a great year. By November, the UK was entirely out of stock. FURBY was supported by a strong digital marketing campaign, and on Christmas day the Furby app was the sixth most downloaded free app in the App Store. In 2013, FURBY goes global and we will continue to add to the FURBY line with new innovative brand experiences.

With the support of global television, product innovation, inventive licensing, a new digital app game, online experiences and a strong retail execution, MY LITTLE PONY continued to post very strong double-digit growth year-over-year. In 2013, we have exciting plans for the brand which we will begin to share with you tomorrow.

Our Games category grew versus our objective of stabilization.

MAGIC: THE GATHERING had another tremendous year, growing more than 30% and marking the brand's fourth consecutive year of 25% growth or greater.

We also had a number of games initiatives that performed well – including TWISTER DANCE, MONOPOLY MILLIONAIRE and BATTLESHIP. Additionally, we launched a very successful new Action Battling gaming initiative across several brands, including TRANSFORMERS BOT SHOTS, STAR WARS FIGHTER PODS and, despite launching late in the year, a strong contribution from our new partnership with Rovio Entertainment and Lucasfilm for ANGRY BIRDS STAR WARS.

We made a great deal of progress within games this year, as we continue to evolve our approach to gaming to be more in line with how consumers are playing games today. We continue to innovate gaming experiences based on consumer insights and offering game play which cannot be replicated online or with an app.

Importantly, we improved profitability in our gaming business to its highest level in several years, we reduced inventory in the U.S. retail channel and grew the games category overall backed by a number of these new initiatives.

Despite these successful initiatives across categories, we did face revenue headwinds in 2012 relative to the $960 million in TRANSFOMERS and BEYBLADE sales in 2011 and a challenging retail environment in the U.S. and a number of Western European countries.

In respect to TRANSFORMERS, 2012 revenue was down in line with other post movie year performances for Boys' brands, however, the brand grew 10% versus 2010, our last non-movie year, with support from global television and new brand initiatives. Looking ahead to 2013, we are excited about the complete reinvention of TRANSFORMERS across platforms, including a TV series distributed globally, online and mobile games, licensed products, and a full line of new toys based on the all new TRANSFORMERS BEAST HUNTERS. In 2014, we anticipate the next installment of the TRANSFORMERS movie franchise, with an all new cast and characters, in partnership with Paramount Pictures and Michael Bay.

For BEYBLADE, 2012 revenues exceeded our expectations declining less than we had planned. BEYBLADE remains a very popular brand globally and in the U.S. BEYBLADE ranked as one of our top 10 selling items based on point of sale data for the year. In 2013, we have new brand initiatives integrated with all new animation from our partners at d-rights, Nelvana, and TakaraTomy.

Looking more closely at our performance by region, our U.S. business declined reflecting retail inventory reductions, tough comparisons and a challenging market. But we generated greater earnings power from sales, increasing our operating profit margin to 15.1% versus 12.4% in 2011. In 2012, we changed our approach to the market and how we partnered with our retailers. This allowed us to grow profitability and importantly positions us for profitable growth in future years. At the beginning of 2012 we tasked the new U.S. team with returning the segment to historical operating profit margins, and through a disciplined focus on quality execution and strong inventory management they were successful in one short year.

Internationally revenues grew 1% absent foreign exchange representing the largest revenue year internationally in company history. Including the impact of foreign exchange, revenues declined 4%; Latin America grew 8% contributing to our Emerging Markets growth of 16%. Additionally, we achieved profitability in every major emerging market except China, including Brazil, Russia, and Colombia a year ahead of plan.

I've talked today and, over the past few years, about the importance of supporting brands with rich digital and media content. As a result of the investments we made in recent years, our television, film, digital and licensing strategy is firmly in place and working. If you look at our brand performances, and those across the industry, brands with a comprehensive strategy across these platforms are connecting with consumers and outperforming those operating outside of this model.

Since announcing our entry into television and television programming several years ago, we have made significant progress. Our shows are now in more than 170 countries worldwide and in 2012 these programs drove approximately $150 million in incremental merchandising revenue. Our television presence is also helping to build our brands in many emerging market countries.

In the U.S., THE HUB is now available in 72 million homes, versus 56 million at launch. Advertising has grown significantly, ratings are growing and have posted five consecutive quarters of year-over-year growth in total day and in 2012 The Hub was the fastest growing kid cable network. While we continue to record a small annual loss after amortization in this investment, the network is cash flow positive and our overall global television strategy is on track and delivering profitable incremental revenues for Hasbro.

In 2013, we have another year with an extremely strong television slate supported by Hasbro's and our partners' programming airing around the world. We also are supporting a number of major motion pictures in the coming year, providing additional global opportunities for Hasbro and partners' brands. Following these great films in 2013, there are a number of films slated for 2014 and beyond from Hasbro and our partners.

We are thrilled that our partner Marvel has a number of films planned including *The Amazing Spider-Man 2,* an *Avengers* sequel*, Thor: The Dark World, The Wolverine, and Captain America: The Winter Soldier*, as well as the launch of a new brand, *Guardians of the Galaxy*. Lucasfilm is now developing new *Star Wars* movies, including *Star Wars VII*, planned for 2015 with JJ Abrams directing.

Marvel's character brands, including Avengers and Spider-Man, along with Disney's new acquisition of Star Wars, are major franchise brands for Hasbro, and our partnership with Disney is enabling us to develop these brands to be more global than ever before.

Today and in the future, consumers and retailers are increasingly looking for compelling innovation integrated with a multitude of digital experiences. At Hasbro, we work with tremendous brands, an experienced global team developing innovative brand initiatives including a strong multi-year slate of television, films and immersive digital engagements which we believe positions us to deliver long-term profitable growth and enhanced total shareholder returns.

Tomorrow, we will speak further about the evolution of our brand blueprint at our Toy Fair presentation, as well as provide you with a first look at much of our 2013 product line.

Now, I would like to turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you and good morning.

Thank you, Brian.

As Brian stated, we accomplished many of the objectives we set for the company in 2012.

- Through solid execution and good fiscal discipline, we increased our company's underlying operating profit margins fueled by gains in the U.S. & Canada segment margins.
- We drove further growth in the emerging markets and achieved our profitability target a year ahead of plan. Posting 16% growth, emerging markets now represent more than 10% of our total revenue and our major markets, such as Brazil and Russia, are profitable.
- We generated operating cash flow above our $500 million annual target, which continues to provide us with capital to both strategically deploy back into our business and to return to our shareholders. Today we announced an 11% increase in our quarterly dividend.
- Finally, we began the implementation of a cost savings initiative designed to generate $100 million in annual savings by 2015. This program is wide-reaching and strategic in nature, designed

not only to lower our cost basis but to drive higher levels of efficiency and effectiveness from our global teams. We have great confidence in our people and our strategy, and we believe in our ability as a team to accomplish the goals we have set for Hasbro.

Turning to our 2012 results, full-year net revenues were $4.09 billion dollars compared to $4.29 billion dollars in 2011. Excluding a $98.5 million dollar negative impact from foreign exchange, revenues declined 2% to $4.19 billion.

Operating profit for the year as reported was $551.8 million dollars compared to operating profit of $594.0 million dollars in 2011. 2012 operating profit includes $47.2 million dollars in restructuring charges. 2011 operating profit includes $14.4 million dollars related to costs associated with establishing our Gaming Center of Excellence. Excluding these charges in both years, 2012 operating profit was $599.0 million dollars, or 14.7% of revenues, compared to $608.4 million dollars, or 14.2% of revenues last year.

Net earnings as reported for 2012 were $336.0 million dollars, or two dollars and fifty five cents per share, compared with $385.4 million, or two dollars and eighty two cents per share, in 2011. Absent charges and a favorable tax benefit in 2011, 2012 EPS was two dollars and eighty one cents per share versus two dollars and seventy four cents per share in 2011. Additionally, 2012 EPS includes a negative ten cent per share impact from foreign exchange.

Cash grew year-over-year to $849.7 million dollars, as we generated $535 million dollars of operating cash flow. As I mentioned, we remain in a strong cash position to fund our business and to continue returning cash to shareholders.

Looking at our full-year 2012 results by segment:

The U.S. and Canada segment net revenues were $2.12 billion, down 6% versus $2.25 billion last year. Growth in the Girls and Games categories was more than offset by declines in the Boys and Preschool categories.

The U.S. and Canada segment reported 15% operating profit growth to $319.1 million dollars, or 15.1% of revenues, compared to $278.4 million, or 12.4% of revenues, in 2011. The increase in operating profit came primarily from product mix as well as improved inventory management based on the change in execution of our U.S. business and the decision to shift shipments later in the year versus last year. The U.S. team's execution drove improved margins in the segment, a 23% reduction in our own U.S. & Canada segment inventories and a 20% reduction in U.S. retail inventories.

In the International segment, absent a negative foreign exchange impact of $98.0 million dollars, net revenues grew 1%. As reported, net revenues were $1.78 billion dollars, down 4%, versus $1.86 billion in 2011. The results in this segment reflect 8% growth in Latin America, offset by a decline in Europe and Asia Pacific. Revenues in the emerging markets grew 16%, driven by strong double-digit growth in Brazil and Russia.

Internationally, the Games and Preschool categories were flat, while Boys and Girls declined.

Operating profit in the International segment decreased $55.1 million dollars to $215.5 million dollars or 12.1% of revenues compared to $270.6 million dollars, or 14.5% of revenues in 2011. The decline in operating profit primarily reflects our geographic mix of revenues. Our emerging markets posted strong growth, representing a higher percentage of the segment, but they currently carry lower profit margins, while our more profitable developed markets declined as a percentage of the total.

The Entertainment and Licensing segment net revenues increased $19.2 million dollars or 12% to $181.4 million dollars compared to $162.2 million dollars in 2011. In 2012, the segment benefitted from increased sales of television content in all formats, including global television distribution, digital distribution and home entertainment. This was offset by year-over-year declines in movie-related revenue, including lower revenues from licensed product primarily associated with the third TRANSFORMERS motion picture in 2011.

For the full-year 2012, the Entertainment and Licensing segment reported 24% operating profit growth to $53.2 million dollars compared to $42.8 million dollars in 2011. Operating profit growth was the result of higher revenues and improved expense leverage.

In 2012 we recorded $47.2 million dollars of pre-tax restructuring charges. From a segment basis, substantially all of these charges are in corporate expenses. In looking at the income statement, approximately $2.8 million of these charges were recorded in cost of sales, $10.9 million in product development and the majority, $33.5 million, is in SD&A.

2011 also included restructuring charges of $6.8 million in product development and $7.6 million in SD&A. The following discussion excludes charges for both years.

For the Company overall, cost of sales for the full-year was $1.67 billion dollars, or 40.8% of revenues, compared to $1.84 billion dollars, or 42.8% of revenues, in 2011. The year-over-year improvement came primarily from improved inventory management in our operating segments and favorable product mix.

From an expense standpoint, total operating expenses were $1.82 billion dollars, or 44.5% of revenues, compared to $1.84 billion, or 43.0% of revenues, last year.

Full-year program production amortization totaled $41.8 million dollars versus $35.8 million dollars last year. This was in line with our expected range of $40 to $50 million dollars for 2012.

Royalties declined to $302.1 million dollars or 7.4% of revenues for the full year versus $339.2 million dollars and 7.9% of revenues in 2011. This reflects strong global growth in MARVEL during 2012, but was more than offset by lower sales of other royalty bearing entertainment properties. In 2011 we had nearly a billion dollars of sales from the third TRANSFORMERS film and BEYBLADE.

Our advertising to revenue ratio increased in 2012 to 10.3%, versus 9.7% in 2011, consistent with our stated plan to increase our investment in advertising in the U.S.

SD&A of $813.9 million dollars was essentially flat with last year and totaled 19.9% of revenues. Last year's SD&A reflected approximately $30 million dollars of lower than expected compensation expense. In 2012, we gained about half of that amount back which was mostly offset by the favorable impact of foreign exchange.

Moving below operating profit:

Other expense net, was $7.2 million in 2012 versus $18.6 million in 2011.

Our 50% share of THE HUB is included on this line on the P&L. For 2012, our share of the earnings in THE HUB was a loss of $6.0 million compared to a loss of $7.3 million dollars a year ago.

2012's lower total other expense reflects investment gains, versus losses in 2011, and lower foreign currency losses this year versus last.

Our underlying tax rate in 2012 was 27.0% compared to an underlying tax rate of 26.2% last year.

Now let's turn to the balance sheet:

Hasbro has generated $2.2 billion in operating cash flow over the past five years, and we've used that cash to strategically invest in expanding our global footprint and capabilities across several long-term growth opportunities including the emerging markets, entertainment and licensing. During that time, we've also paid $731 million to shareholders through our dividend program and spent $1.6 billion in share repurchases.

In 2012, our business generated operating cash flow of $534.8 million dollars ahead of our annual target of $500 million dollars. 2012 television programming spend totaled $59.3 million dollars. At year end, cash totaled $849.7 million dollars compared to $641.7 million dollars a year ago and $696.7 million dollars at the end of the third quarter.

In 2012, we returned $225.5 million dollars to shareholders through our quarterly dividend program, including $46.6 million dollars associated with the accelerated payment of our historical February dividend which we paid in December. Excluding the accelerated dividend payment, our payout ratio in 2012 was approximately 53%, slightly above our stated 45-50% target. In 2013, we anticipate one less dividend payment given the February 2013 payment was paid in December 2012.

Today we announced the ninth increase in our dividend in the last ten years. The new quarterly dividend rate is forty cents per share, up 11%, or four cents, from the previous rate. This increase continues to reflect the confidence we and our Board have in Hasbro over the long term.

In 2012 we also spent $100 million on share repurchases, buying back 2.7 million shares at an average price of $37.11. At year end, $127.3 million remained available in the current share repurchase authorization.

Receivables at year end were $1.0 billion dollars, consistent with last year. DSOs were 72 days, up 2 days versus 2011 reflecting growth in emerging markets with longer terms in particular Latin America.

We continued to lower inventories this past quarter, ending the year with $316.0 million dollars in inventory, down from $334.0 million dollars in 2011. We ended the year with lower inventories in the U.S. & Canada, partially offset by higher levels of inventories overseas in support of our expanding emerging markets, including a new warehouse in Russia.

Depreciation for 2012 was $99.7 million dollars and Capex was $112.1 million dollars.

We enter 2013 in a strong financial position, as we are leveraging recent investments across our business. Our cost savings initiative will not only lower our overall cost structure, but strategically align our organizations' efforts with our most significant opportunities. This focus will help us drive profitable growth for Hasbro and enhance shareholder value over the long-term.

I would like to now turn the call back to Brian before we take your questions.

Brian Goldner, Hasbro President and CEO:

Thank you Deb.

Before we take your questions, you may have noticed we have not provided guidance for the coming year.

Everyone at Hasbro globally is focused on delivering profitable growth year in and year out for the long term. We believe this focus will result in delivering compelling long-term total shareholder returns as we have provided over the last decade. We are not, however, going to be providing annual guidance on revenues and EPS going forward. We will, however, continue to work hard to communicate to you our strategy, our milestones and the progress we are making in our evolution towards becoming a world-class branded play company.

With that, Deb, David and I are happy to take your questions.