Hasbro First Quarter 2016
Financial Results Conference Call Management Remarks
April 18, 2016

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me this morning are Brian Goldner, Hasbro's Chairman, President and Chief Executive Officer, and Deb Thomas, Hasbro's Chief Financial Officer. Today, we will begin with Brian and Deb providing commentary on the company's performance and then we will take your questions.

Our first quarter earnings release was issued this morning and is available on our website. Additionally, presentation slides containing information covered in today's earnings release and call are also available on our site. The press release and presentation include information regarding Non-GAAP financial measures. 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.

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.

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 Brian Goldner. Brian.

Brian Goldner, Hasbro Chairman, President and CEO:

Thank you, Debbie. Good morning everyone and thank you for joining us today.

First quarter's revenue, operating profit and net earnings growth reflected a commitment to our strategy and the inherent benefits of focusing on Hasbro's Franchise Brands, key strategic Partner Brands and our ability to execute around the blueprint. The global Hasbro teams continue to perform at a very high level, delivering innovative brand experiences informed by global consumer insights and supported by compelling storytelling. We are building deep and relevant brand connections with consumers across broad demographics and geographies.

First quarter revenues grew 16%, and 20% absent FX, driven by Hasbro Franchise Brands, Partner Brands and strength across geographies.

Hasbro's global teams delivered an extremely strong quarter, with double digit revenue and operating profit growth in the U.S. and Canada and International segments.

Internationally, we grew revenues despite the foreign exchange environment, with strong gains in many developed economies. When adjusted for foreign exchange, we posted double-digit revenue growth in all major geographic regions.

Emerging market revenues increased 6% absent FX, and we continue to expect these markets to grow revenues double-digits absent FX for 2016. While consumer demand remains robust, we are beginning to see an impact on some retailers from the ongoing economic challenges.

Global point of sale increased 27% in the quarter, behind double digit growth in all major regions: North America, Europe, Latin America and Asia Pacific, and double digit growth in both toys and games.

In the U.S., point of sale increased double digits in all categories: Boys, Girls, Games and Preschool with growth in Franchise and Partner Brands.

In addition, according to NPD, through the first two months of the year, we continued to gain share in nearly every major market.

Overall Franchise Brand revenues grew in the quarter. In total, toy and game revenues for Franchise Brands increased 9% absent FX, increasing 12% in the U.S. and Canada segment and 6% in the International segment. The first quarter had several unique and expected comparison challenges within the Franchise Brands which don’t change our positive outlook for the full year.

Q1 was a tough comparison within the Entertainment and Licensing category. Franchise Brand revenues in the segment declined this year versus last year when we recorded revenue for a multi-year digital streaming deal. The agreement includes MY LITTLE PONY, LITTLEST PET SHOP and TRANSFORMERS programming. The segment also had tough comparisons in consumer products and film revenues related to the 2014 TRANSFORMERS movie recorded last year.

TRANSFORMERS toy and game revenues were also down versus a very strong first quarter of last year when it benefited from the movie.

Franchise Brand POS in the quarter was up high single digits globally and double digits in the U.S, more than overcoming the negative TRANSFORMERS comparison.

Within our Franchise Brands, NERF and PLAY-DOH continued to deliver strong growth.   New innovations from NERF, including MODULUS and RIVAL, are performing well and 2016 marks their first full year in the market. PLAY-DOH continues to drive growth in play sets and compounds. This year, we are launching an entirely new system of play with PLAY-DOH TOWN that is now available in the U.S. and rolling out internationally throughout 2016.

MY LITTLE PONY grew in the U.S. and Canada segment, and, absent FX, in the International segment. We continue to deliver innovative new product, strong licensing programs and compelling entertainment, including the sixth season of *MY LITTLE PONY FRIENDSHIP IS MAGIC* which began airing March 26th.

In addition, the launch of the new EQUESTRIA GIRL'S mini doll segment is off to a strong start. We are working through some retail inventory within EQUESTRIA GIRLS, but we are optimistic about the initial consumer reaction to our new offering and the overall outlook for MY LITTLE PONY globally.

As I mentioned, TRANSFORMERS revenue represented the most significant decline within our Franchise Brands for the quarter. New entertainment began late in the first quarter of this year, with the second season of *TRANSFORMERS ROBOTS IN DISGUISE* on Cartoon Network in the U.S. and currently rolling out internationally. Machinima and Hasbro are unveiling all new entertainment targeting the older TRANSFORMERS fan later this year.

We are also actively developing the next chapter of the TRANSFORMERS theatrical stories. In February, Paramount Pictures dated *TRANSFORMERS 5* for release on June 23, 2017, with two additional TRANSFORMERS films planned for June 2018 and 2019. We have global teams of talented individuals working on this multi-year theatrical entertainment and innovation slate.

Overall Games revenue was down slightly in the quarter, and flat absent FX. PIE FACE continues to be in high demand. We also saw growth in our digital gaming licensing, including YAHTZEE, which is being driven by our mobile gaming license with Scopely. DUEL MASTERS, a

Japanese trading card game, also contributed to growth in the quarter. We are investing to build great gaming experiences, in both face to face and digital play environments.

Our outlook for MAGIC: THE GATHERING remains positive. The release schedule fluctuates and revenue timing is story driven, but it is effectively driving engagement with players. We shipped the first set in the Shadows Over Innistrad block on April 8th, versus a first quarter release last year. It is off to a fabulous start, with pre-release attendance up 20% and this validates our change to a 2-set block. Magic recently achieved the milestone of 1 million active players in our organized play system.

We also have 65,000 players who play in premier events streamed to “e-sports” audiences. This is an area we are investing in to both grow the number of events and the player base.

The team at Wizards of the Coast is doing great work to foster both analog and digital play for the Magic community. We are very pleased to have Chris Cocks from Microsoft joining us as President of Wizards of the Coast. As we announced last week, Greg Leeds is leaving Hasbro. We are grateful for his contributions and wish him the best in his new endeavors.

The first quarter also benefited from the strength of our Partner Brands. Retail and consumer demand for STAR WARS remained very high and, at this early stage of the year, we continue to believe 2016 revenues could be in line with last year. *STAR WARS: THE FORCE AWAKENS* was recently released in home entertainment and *ROGUE ONE: A STAR WARS STORY* is scheduled for release on December 16th.

The first quarter also marked the on shelf date for Hasbro's line of DISNEY PRINCESS and DISNEY'S FROZEN fashion dolls and small dolls. Initial consumer reaction has been very positive and our approach of offering the entire range of Disney Princess is resonating. New content and the all new characters of Moana and Elena of Avalor will further support our innovative products this year.

In addition, Marvel's *CAPTAIN AMERICA: CIVIL WAR* will be in theatres on May 6th. We have a robust line and strong planned retail promotional activity supporting this film.

The first quarter was a good start to the year, but we know there is a lot of the year left to deliver. For 2016 and beyond, we have an innovative line of both Hasbro brands and Partner brands and we are investing to deliver the best experiences to retailers and consumers globally. This includes continued strategic investment and further development of our capabilities around the Brand Blueprint, including in storytelling, digital gaming and our consumer products licensing efforts.

I will now turn the call over to Deb. Deb.

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

The first quarter was a very good quarter for Hasbro. The strength of our results reflected the continued momentum in our business and strong execution by our global teams. We grew revenues, operating profit and earnings despite the continued negative impact from foreign exchange and challenging economic environments in some international markets.

We returned $93.2 million in cash to shareholders, and ended the quarter with a very strong balance sheet well positioned to support our 2016 growth outlook.

Looking at our segments for the first quarter 2016,

Revenues in the U.S. and Canada segment increased 28%. The Boys, Girls and Preschool categories posted revenue growth, while the Games category declined slightly. Hasbro Franchise Brand revenues increased, and Partner Brands further contributed to growth with revenue increases in STAR WARS, DISNEY PRINCESS, FROZEN and DESCENDANTS as well as YOKAI WATCH.

U.S. point of sale posted solid double digit growth in all categories and retail inventory continued to be of very good quality.

Operating profit in the U.S. and Canada segment increased 89%, reflecting higher revenues, partially offset by higher expense levels.

International segment revenues grew 13%. Excluding the negative $26.7 million impact from foreign exchange, International segment revenues increased 22%.

Revenue in the segment grew in all four product categories: Boys, Games, Girls and Preschool. Franchise Brand revenues were down slightly as reported, but grew absent FX. Partner Brands were also positive contributors, including STAR WARS, DISNEY PRINCESS and FROZEN.

Operating profit in the segment increased 50% to $2.9 million. Profit improvement on higher revenues was partially offset by increased expenses year-over-year. During the quarter, we also took a $13.8 million bad debt provision for a potentially uncollectable receivable. This was the first significant provision taken since we began our expansion in 2008 into more international territories, notably emerging markets. Overall we feel we have taken the appropriate risks and manage our higher risk accounts very closely.

Current exchange rates in certain regions have changed favorably since the beginning of this year. Although the Euro has strengthened, other currencies continued to weaken in the quarter. For the full year, we forecasted an approximate $100 million negative impact from foreign exchange compared to 2015. If rates, in particular the Euro, stay favorable that impact would be much lower.

Entertainment and Licensing segment revenues declined 30%. In the first quarter of last year, the segment benefited from a multi-year digital streaming deal for Hasbro Studios television programming. Consumer product licensing and entertainment revenues also declined in the quarter, most notably from the difficult comparison with last year's *TRANSFORMERS* movie- related merchandise and revenues. Licensing revenue is generally recorded in arrears, and last year's first quarter reflected the holiday 2014 TRANSFORMERS movie-related revenue.

Segment operating profit declined 67%. In addition to lower revenue, we continued to make investments in our consumer products team, digital gaming and storytelling to drive future growth in these higher profit margin revenue sources. These are strategically important capabilities which truly differentiate Hasbro's brands with both consumers and retailers.

Turning to overall expenses,

Higher revenues drove improved expense leverage and a 270 basis point increase in operating profit margin for the quarter.

We continued to see growth in Partner Brands, which drive lower cost of sales to revenue and higher royalty to sales ratios. Both measures were close to flat with last year levels as cost of sales for the quarter were 34.9% of revenues and royalties totaled 8.4%.

Product development dollar growth reflects continued investment in innovation across our brand portfolio, including Franchise, Partner and new brands.

Advertising remained approximately flat as a percentage of sales.

Intangible amortization declined, reflecting some of our digital gaming assets becoming fully amortized in the second quarter of last year.

Program production cost amortization was also down in the quarter. In the first quarter of last year, this line reflected the higher revenue and associated amortization with our streaming deal for Hasbro programming.

SD&A in the quarter was down as a percent of revenues. SD&A dollars increased 12%, primarily due to investments around our Brand Blueprint, bad debt and higher compensation expense.

Our first quarter results support our ability to sustain and grow operating profit levels over time. At the same time, we continue to make incremental investments in our brands, including in the digital ecosystem for MAGIC: THE GATHERING; in our IT systems, to drive efficiencies and enhance innovation; and in our talent and capabilities to execute our Brand Blueprint. In the first quarter, the strength of our business enabled us to deliver operating profit expansion while investing for future growth.

Turning to our results below operating profit for the quarter:

Other expense was $2.7 million versus income of $4.7 million last year. Increased profits associated with our 40% share of the operating income in the Discovery Family Channel combined with higher interest income on our investments was more than offset by larger losses from foreign exchange transactions.

The underlying tax rate was 26.5%, down from 27% last year and essentially in line with 26.4% for the full year 2015.

Diluted earnings per share were $0.38 compared to $0.21 cents last year.

Our balance sheet remains strong.

Cash totaled $1.1 billion at quarter end. We generated $294 million in operating cash flow during the quarter and $531 million over the past 12 months. During the first quarter, we returned $93.2 million to shareholders: $57.4 million in dividends and $35.8 million in share repurchases.

Our May 16 dividend payment will be the first quarter at the higher dividend rate of fifty one cents per share, which the Board increased 11% in February.

Receivables at quarter end were up 19% versus the 16% growth in revenues, and DSOs increased two days to 73 days. Absent the impact of foreign exchange, receivables increased approximately 23% versus 20% revenue growth absent FX. Overall our accounts receivable are in good condition and collections continue to be strong.

Inventories increased 36% versus last year. Adjusting for a negative foreign exchange impact, inventory increased 41% reflecting the new businesses we are supporting, the timing of entertainment and our outlook for 2016. Overall, we believe we have the right amount and quality of inventory at retail and at Hasbro to meet our growth expectations for the year.

Throughout the first quarter, we maintained and improved upon the high level of performance we delivered last year. While we have a great deal of the year left to go, we are well positioned to capitalize on the innovation and entertainment driving our brands.

Brian and I are now happy to take your questions.