Hasbro First Quarter 2012
Financial Results Conference Call Management Remarks
April 23, 2012

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Our first quarter earnings release was issued earlier this morning 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 during today's call, whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

This morning, Brian Goldner, Hasbro's President and Chief Executive Officer, and Deb Thomas, Hasbro's CFO, will review our first quarter financial results and discuss important factors impacting our performance. Following their statements, David Hargreaves, Hasbro's Chief Operating Officer, 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 managements' 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, targets and expectations for our future financial performance, including expectations for revenues and EPS in 2012, as well as achieving our objectives.

There are many factors that could cause actual results and experience 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, 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:

Brian Goldner

Thank you, Debbie.

Good morning everyone and thank you for joining us today.

At our Investor Day in November 2011, as well as our Toy Fair meeting following Q4 earnings in February, we communicated our plan for 2012 which called for a greater percentage of our business to come later in the year as we better aligned our shipments with the timing of consumer demand on a global basis. Our first quarter results are consistent with the execution of this plan and we continue to believe that we are on track to deliver revenues and earnings per share growth, absent the impact of foreign exchange, for the full year 2012. We experienced point of sale growth versus the first quarter 2011 in both the U.S. and major international markets and, according to NPD through the first quarter of 2012, we gained share in the U.S. and Europe.

Let me share some of the highlights of the first quarter. The momentum in our international business has continued and we posted growth in every major geographic region during the quarter; we grew shipments in the Boys and Games product categories; and we are experiencing positive point-of-sale trends in the major markets where we receive data.

In the U.S. and Canada we are making progress toward our plan to return the business to historical operating profit margin levels versus 2011 results. We reduced our headcount and right sized the business during the first quarter. We are also working with our retailers to better align the timing of our shipments with the timing of consumer demand that comes later in the year. Finally, we are aggressively increasing our media spend this year versus 2011 as we shift more dollars toward selling innovative Hasbro product lines to consumers.

So far we are seeing good results. Point-of-sale was up in the quarter 6% and our retail inventories are down 20%.

From a product category standpoint company-wide, our Boys and Preschool category shipments grew in the quarter. In the Boys category, demand was driven by entertainment properties from MARVEL and STAR WARS as well as KRE-O, which we did not have revenue for last year. An encouraging sign is that BEYBLADE has continued to be strong in many markets, with strong point of sale growth in several countries including the U.S., Canada and Germany, and net revenues in terms of shipments flat with last year.

As 2012 is a non-movie year, it is not surprising that TRANSFORMERS was down in the Boys category. However, although early in the year, the brand is flat with last year on an overall brand revenue standpoint with new initiatives including TRANSFORMERS RESCUE BOTS and BOT SHOTS contributing to the Preschool and Games categories. Additionally, licensing revenue for TRANSFOMERS grew year over year. Point of sales trends for TRANSFORMERS were up in many countries including the U.S., Canada, UK, France, Germany and Mexico. We are also seeing good early success with TRANSFORMERS PRIME as television is now airing in more than 160 countries.

The Boys category will benefit from the launch of four major motion pictures in the coming months to global audiences. In partnership with Universal, BATTLESHIP is off to a great early start. The film recently launched in more than 50 international territories and while we are still awaiting final numbers, we are very pleased that in just 12 days, the film has grossed more than $100M in international box office revenue.

MARVEL has two tremendous films this year – THE AVENGERS, from Marvel, opens May 4, and THE AMAZING SPIDER-MAN from Marvel and Sony, opens July 3. Both brands are being supported with television animation and we have strong lines for both properties.

Finally, in partnership with Paramount, we are excited for the return of G.I. JOE to the big screen in *G.I. Joe: Retaliation*, coming to theatres on June 29th.

In Preschool, SESAME STREET contributed to the year-over-year gains as did PLAYSKOOL HEROES, with TRANSFORMERS RESCUE BOTS leading PLAYSKOOL HEROES' growth.

While the Girls and Games categories were down in the quarter, MY LITTLE PONY, posted positive shipments for Hasbro and positive point-of-sale growth in several countries, including the U.S., UK, France and Spain. MY LITTLE PONY television programming is currently airing in these countries as well as in more than 160 countries worldwide. We also launched DIZZY DANCERS, which is part of our FURREAL FRIENDS line, in the first quarter and this is off to a good start in early markets like the U.S. and Australia. We have many innovative new initiatives coming for girls this Fall, including BABY BUTTERSCOTCH in FURREAL FRIENDS and BABY WANNA WALK from BABY ALIVE; as well as a great new look for LITTLEST PET SHOP inspired by television programming in the U.S. and Canada this fall and rolling out to additional markets beginning Spring of 13.

We also are very excited about the return of FURBY to our lineup this fall. We are not yet sharing specific details of the new FURBY, but we are pleased with the reception FURBY has received thus far by our retail partners and we look forward to unveiling FURBY to consumers.

In the Games category, we continue to view 2012 as a year for stabilizing Games with the intent of growing the category in 2013 and beyond. At the end of the first quarter, our retail inventories in Games are down significantly in the U.S. from last year as we restage the business and re-invent our games initiatives beginning in the second half of 2012. Despite this trend, several Games brands grew in the quarter, including continued strong performance from MAGIC: THE GATHERING, and growth in DUEL MASTERS and BATTLESHIP. As we outlined at Toy Fair, we have developed new initiatives which focus on the "gameification" of play and these are off to a good start, including STAR WARS FIGHTER PODS and TRANSFORMERS BOT SHOTS.

Later this year, we have innovative new games being introduced including a completely re-imagined LAZER TAG; a new way to play TWISTER with TWISTER DANCE; and an all new MONOPOLY, MONOPOLY MILLIONAIRES. This year we also have an entirely new game brand, KAIJUDO, from Wizards of the Coast. KAIJUDO is supported by all new television programming, which begins airing on THE HUB in May, as well as an online battle game in May and a trading card game, which launches in limited edition release in June.

We are also very excited to have established a multi-year partnership with Zynga under which Hasbro will develop and distribute wide-ranging product lines based on Zynga's game brands in a number of toy and game categories. The first products under this agreement will be available in Fall 2012.

Finally, our television initiatives are trending positively. THE Hub ratings are up 32% in the first quarter versus last year in total day kids 2 to 11. As we look at the overall schedule on THE HUB, Hasbro-branded television shows accounted for 6 of the top 10 series in the quarter with *Transformers Rescue Bots* and *My Little Pony Friendship is Magic* ranking number one and number two for kids 2-11.

Outside the U.S., our shows are now airing in more than 160 countries worldwide and are performing quite well. 2012 is the first year in which we have programming and merchandise globally and early sales trends support our long-stated premise that television programming drives merchandise sales.

Through a multi-year agreement with Netflix that we signed this month, we have dramatically expanded our audience by 24 million homes. Netflix will be airing ten Hasbro Studios shows, in the U.S. and Puerto Rico, including *Transformers Prime* and *My Little Pony*. These shows are part of the "Just For Kids" section of Netflix which is performing well. Our approach to television programming has been an all screen strategy from the start, and this agreement dramatically expands the visibility and distribution of our shows.

In closing, the first quarter is in line with our expectation and what we outlined for you on a number of occasions. We are on track for delivering our full-year plan which is centered around the execution of our global brand blueprint through a focus on innovation, new inventions, immersive experiences and our international business all while planning a return in the U.S. business to historical levels of operating profit margin versus 2011 results.

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

Deb Thomas, Hasbro CFO

Thank you and good morning.

As Brian said, beginning in November of last year, we outlined for you our plan that called for 2012 to develop later in the year, more closely aligned with the timing of consumer demand in the U.S. and Canada, and more reflective of the trends historically evident in our International segment. As you may recall, our plan outlines approximately 2 to 4% more of our full-year revenues to occur in the second half 2012 than we historically have reported. This shift impacted both our revenues in the first quarter and our profit.

Consistent with this plan, first quarter worldwide net revenues were $648.9 million down 3% versus $672.0 million last year. Foreign exchange had a negative $8.5 million impact on net revenues for the quarter.

Operating profit for the quarter was $15.7 million versus $48.9 million in 2011. This reflected not only the lower revenues in the quarter, but also $11.1 million in severance costs. We also had an extra week of certain fixed expenses, as the first quarter 2012 was a 14 week period versus a 13 week period in 2011. The extra week of expense equated to approximately $6 million.

As a result, we reported a net loss of $2.6 million or ($0.02) per share in the quarter. Excluding the severance costs, net earnings were $5.1 million or $0.04 per share.

Looking at our first quarter 2012 results by segment:

The U.S. and Canada segment net revenues were $329.0 million, down 16% versus $391.2 million last year. We are executing our plan to return the segment to historical operating profit margin levels and better align our shipment timing with the timing of consumer demand. We have taken steps to right-size the organization and implement a higher level of spending in consumer-facing marketing and advertising. As a result, in the first quarter, we incurred severance costs in this segment and increased our advertising spend. We are also working with our retailers to ensure the right level of product is available later in the year, more closely aligned with consumer demand. As we expected, these actions resulted in lower revenues and lower profit for our U.S. and Canada segment. However, we also saw positive results at retail, with a 20% reduction in retail inventory at our top four accounts as well as a 6% increase in point of sale in the quarter.

Consistent with the shift in revenue timing, net revenues growth in the Preschool category was offset by declines in the Boys, Girls and Games product categories.

The U.S. and Canada segment reported an operating profit of $14.4 million or 4.4% of revenues for the first quarter 2012 versus an operating profit of $41.0 million or 10.5% of revenues in 2011. The decline in operating profit margin is primarily the result of lower revenues in the quarter as well as steps the U.S. and Canada team is taking to position the segment for profitable growth. These steps include not only severance costs, but advertising spend three quarters of a percent higher as a percentage of net revenues than a year ago at this time as well as the mix of product sales versus the first quarter 2011. In addition, we had an extra week of certain expenses during the quarter. However, our underlying expenses are down in the quarter as the team positions the business to return to historical operating profit levels.

First quarter 2012 International segment net revenues increased 14% to $289.7 million compared to $254.3 million last year. Absent a negative foreign exchange impact of $8.2 million, net revenues in the International segment grew 17%. The results in this segment reflect continued growth in all major geographic regions, as well as growth in the Boys and Games product categories, which more than offset flat revenues in the Preschool category and a decline in the Girls category.

The International segment reported an operating loss of $5.1 million compared to an operating loss of $1.7 million last year. This segment's results reflect continued investments in emerging markets including the expansion of our sales and marketing office in Russia which we shared with you in November. Additionally, the segment was impacted by severance costs as our first quarter restructuring actions were not limited to the U.S. and Canada segment. Excluding severance and onetime items, the International segment's operating loss as a percentage of revenues was slightly less than last year.

The Entertainment and Licensing segment first quarter revenues increased 19% to $29.3 million from $24.6 million last year. Revenue growth in the Entertainment and Licensing segment reflects the sale of television programming globally, as well as movie and licensing revenue from TRANSFORMERS.

The Entertainment and Licensing segment reported an operating profit of $7.7 million compared to $5.4 million in 2011. Higher revenues and better expense leverage drove the 42% increase in operating profit in the quarter.

For the Company overall, cost of sales for the quarter was $257.0 million or 39.6% of revenues, compared to $267.2 million or 39.8% of revenues last year. This included $2.8 million of severance costs in the first quarter of 2012. Our full year target for cost of sales remains in the 42% of revenues range.

From an expense standpoint, royalties were 8.1% of revenues compared to 6.4% of revenues in 2011 and reflect strong sales of entertainment properties including, BEYBLADE, MARVEL, STAR

WARS and TRANSFORMERS. For the full year 2012, we continue to anticipate royalties to be in the 7 to 8% of revenues range.

SD&A increased as a percentage of revenues to 30.8% in 2012 versus 27.7% in 2011 due to the lower revenue level in the quarter as well as $5.9 million of severance costs. We continue to target SD&A to be below 20% of revenues for the full year 2012.

Our advertising to revenue ratio in the first quarter was up versus 2011. For the full year, we are planning for ad spending to be up, and the target for the company's overall advertising to revenue ratio remains in the 10 to 11% range.

Moving below operating profit:

Interest expense totaled $23.1 million versus $21.4 million in 2011. The $1.7 million increase is primarily due to higher short term borrowings, as well as the impact of the extra week.

Other income was $2.5 million in the first quarter of 2012 versus an expense of $4.7 million in 2011. The year-over-year improvement was primarily the result of higher interest income and investment gains as well as foreign currency gains in 2012 versus losses in the first quarter 2011.

Our 50% share of The Hub is included on this line on the P&L. For the first quarter 2012, our share of the earnings in The Hub was a loss of $1.8 million compared to a loss of $2.0 million in 2011.

Our underlying tax rate for the first quarter 2012 was 26.0% compared to an underlying tax rate of 28.0% in the first quarter 2011. We expect our full year tax rate to be in line with the first quarter's 26% rate.

For the quarter, average diluted shares were 129.6 million compared to 141.0 million last year. It should be noted that due to the fact we reported a loss in the first quarter, basic and diluted shares are the same. If we had reported net earnings for the quarter our average diluted shares would have been 131.6 million.

Now let's turn to the balance sheet:

At quarter end, cash totaled $883.8 million compared to $927.4 million a year ago and $641.7 million at year end 2011. Operating cash flow for the trailing twelve months was $404.3 million and includes $78.3 million in television programming costs over the period. Almost all of our quarter-end cash balance is held outside of the U.S.

During the first quarter, we repurchased approximately 140,000 shares of common stock at a total cost of $5.0 million and an average price of $35.80 per share. At quarter end, $222.3 million remained available under our current share repurchase authorization. We will continue to repurchase shares opportunistically in the open market, using the current authorization as appropriate; however, as we stated in February, we do not currently anticipate repurchasing shares at the same level as we did in 2011 and 2010.

We paid $38.6 million in cash dividends to shareholders during the quarter. Our next dividend payment is on May 15 and reflects the 20% increase in the quarterly dividend announced in February. We currently anticipate full year 2012 dividend payments to be approximately $178 million compared to $154 million for the full year 2011.

The quality of our receivables portfolio remains good and receivables at quarter end were $456.6 million versus $559.0 million last year and $1.0 billion at year end.

DSOs were 63 days, down 12 days versus last year. This improvement was primarily the result of a greater level of shipments occurring early in the quarter which were collected by quarter end and the extra week in the quarter compared to a year ago allowing a greater level of collections to be made.

We continued to reduce our inventory levels and at quarter end, inventories were $397.0 million compared to $401.3 million a year ago and $334.0 million at year end.

Depreciation and capital expenditures for the quarter were $19.3 million and $23.0 million, respectively.

We have begun 2012 as we expected and as we outlined for you. Our significant investments over the past few years are now in place and we have restructured both our U.S. and Canada segment and our games team. Coupled with the strong product initiatives we have for the year, we continue to believe, absent the impact of foreign exchange, we will again grow revenues and earnings per share for the year.

Brian, David and I are now happy to take your questions.

Debbie Hancock, Hasbro, Vice President, Investor Relations –

Thank you to everyone for joining the call today. The replay will be available on our website in approximately two hours. Additionally management's prepared remarks will be posted on our website following this call.

Finally, before we end today's call, we wanted to take this opportunity to update you on some of our Investor Relations activities for this year to facilitate your planning.

First, our second quarter earnings release is tentatively scheduled for Monday, July 23, 2012 and our third quarter release is tentatively slated for Monday, October 22.

Second, we are not planning to hold our Fall Investor Day this year, and plan to use this time as an opportunity to get out on the road and meet with investors.

Additionally, on June 4, we will be presenting at the Goldman Sachs Lodging, Gaming, Restaurant and Leisure Conference.

We look forward to speaking with you in the coming months.