Hasbro Fourth Quarter & Full Year 2015
Financial Results Conference Call Management Remarks
February 8, 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 fourth quarter and year-end 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.

Today's discussion will exclude items from both our 2015 and 2014 results that do not speak to the underlying financial performance of

Hasbro. Details on those items and a reconciliation to our reported financial results are included in the earnings release and presentation slides accompanying this call.

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 Goldner, Hasbro Chairman, President and CEO:

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

Hasbro's record performance in 2015 reflected the strength of our global teams and the power of our Brand Blueprint. Through a focus on Franchise Brands and Partner Brands, consumer insight led innovation and compelling storytelling, we are connecting with consumers more deeply and across more demographics than ever before. It has taken us ten years and significant investment to be in the position of successfully executing our strategy. Today, we are beginning to unlock the full economic value of our brands.

The benefits of our strategy are not only delivering revenue gains, but also driving higher levels of gross and operating margins, which we believe are sustainable for the long term.

In recognition of the strength of the year and our positive outlook, our Board recently voted to raise the quarterly dividend by 11%. This higher dividend reinforces our commitment to enhancing shareholder value over the long term.

Demand for Hasbro initiatives was strong globally last year. Revenues increased 13% absent FX, and reflected the strong demand we saw at the local level around the world. On a reported basis, revenues grew 4%, despite a significant negative impact from foreign exchange translation.

Point of sale was very strong, growing double digits in developed economies including the U.S., UK, Germany, France, Spain, Mexico and Australia, as well as in many emerging markets where we receive retail data directly from our customers. We ended 2015 with retail inventories in very good shape, reflecting strong sell through and high quality merchandise on shelf.

Our growth drove market share gains in the eleven major countries where we have data, according to NPD. In Europe, we took over the number two market share position.

For the full year, Hasbro Franchise Brand revenues grew 7%. Including the impact of currency translation, Franchise Brand revenues declined 2%.

The 7% growth was led by increases in PLAY-DOH, NERF, MAGIC: THE GATHERING, MONOPOLY and MY LITTLE PONY. Our investments in innovation, storytelling and execution around the brand blueprint drove profitable revenue gains while positioning us for future growth.

NERF had a record year, increasing 13%. With new insight driven innovations including NERF MODULUS and RIVAL, and growth in

ZOMBIE STRIKE and NSTRIKE ELITE, Nerf was the largest brand across Hasbro last year.

For the third year in a row, PLAY-DOH delivered record revenues, increasing 32%. We saw strong growth across all regions including a 49% increase in Latin America. While DOHVINCI contributed to growth in its first full year, we also experienced double-digit gains in core PLAY-DOH compounds and playsets.

Growth in MONOPOLY and MAGIC: THE GATHERING contributed to the 8% increase in the Games category, absent FX. Magic had a very good fourth quarter with the release of *Battle for Zendikar,* which had the strongest start to a set in the brand's history. In addition to higher revenues in our Franchise Brands and several other Hasbro Gaming brands, PIE FACE was a clear winner this holiday season and continues to be in high demand at retail. It was recently named Toy of the Year in the U.K. You'll learn more about the next innovation for PIE FACE later this week at Toy Fair.

As expected, TRANSFORMERS revenues declined given the difficult comparison with the 2014 theatrical release. The decrease was at the low end of the traditional range following a movie and benefited from the success of *TRANSFORMERS: ROBOTS IN DISGUISE* television programming airing in markets around the world. In 2016, the second season of programming will begin airing, including on Cartoon Network in the U.S.

LITTLEST PET SHOP posted a small revenue decrease, despite growth in the U.S. and Canada segment as well as in the Entertainment and Licensing segment. Outside the U.S., the markets are actively re-launching the brand and we plan to extend the success we've seen in the U.S. globally. We believe there is an opportunity to engage girls around a more immersive franchise story, including a new approach to multi-platform entertainment which we will be unveiling in the future.

MY LITTLE PONY remains a vibrant and growing property. The core MY LITTLE PONY brand did extremely well in 2015, with positive revenue growth in several countries backed by strong point of sale and the launch of the new Friendship is Magic collectible segment. MY LITTLE PONY has established itself as a major lifestyle brand and for 2015 was our top licensed property.

We experienced a slowdown in EQUESTRIA GIRLS that offset much of the growth we saw in other areas of the brand. In January 2016, we launched a new mini-doll EQUESTRIA GIRLS line which is off to a very good start.

Overall MY LITTLE PONY brand engagement is very high across all lines of the business. To maintain this momentum, we are continuing to invest in multi-channel storytelling while evolving our entertainment strategy to more effectively deliver content.

The success of our Franchise Brands contributed to the 11% revenue growth in our Entertainment and Licensing segment. Despite a difficult comparison with 2014's TRANSFORMERS movie, consumer product licensing revenues increased. Over the past several years, we have built a world-class consumer products organization. We are driving momentum across several brands including MY LITTLE PONY, TRANSFORMERS and MONOPOLY, delivering cross category statements at retail while making inroads in emerging markets, including China and Thailand.

The entertainment and licensing segment is benefitting from our ongoing investment in storytelling through episodic television programming, including a multi-year digital streaming deal.

With the continued growth, the Entertainment and Licensing segment increased to 6% of total revenues and 11% of operating profit. At a 31% operating profit margin, our ongoing investments are positively contributing to the overall operating margin for Hasbro.

Shifting to our Partner Brands, several brands delivered strong growth last year. Star Wars fans around the world have embraced *The Force Awakens*, both in theatre and in merchandise. Hasbro's 2015 Star Wars revenue was on par with past movie years. Nearly half of this revenue was recorded in the fourth quarter, given the December 18 movie release. The next wave of Hasbro Star Wars products is on shelves today and new product will continue to be available in 2016 supporting both the spring home entertainment window for *The Force Awakens* as well as the December 16 release of *Rogue One*. Given the level of entertainment and the strong global demand we are seeing, 2016 Star Wars revenue could be on par with 2015.

Earlier in 2015, *Jurassic World* and *Marvel's The Avenger's: Age of Ultron* both established themselves as top grossing films at the global box office. Each property made strong revenue contributions for Hasbro.

In total, our partner brand revenues were slightly higher than our previous expectation and totaled 28% of revenues. Strong Star Wars results in the fourth quarter were a major contributor to the over performance of these brands. We continue to expect partner brand revenues to be 20 to 25% of total Hasbro revenues. In the near term, this number is expected to be at the higher end of this range.

In 2016, Hasbro's line of DISNEY PRINCESS and DISNEY'S FROZEN fashion dolls and small dolls became available. These products are already on shelves in the U.S. and rolling out internationally. We shipped a very small amount of product in the fourth quarter given the timing of retailer plans. Shipments are now ramping up and early consumer indications are positive. Great partnership with Disney and our global retailers is resulting in a smooth transition, with product on shelf beginning in January. We are closely monitoring inventory at retail to ensure this continues in 2016, as revenues grow and we build greater efficiency and profitability into this new business.

This growth in our Franchise and Partner Brand portfolios drove growth in every region, on a constant dollar basis.

The U.S. and Canada segment delivered double-digit revenue and operating profit growth. In 2012, we re-organized our U.S. teams and put in place a plan to drive both top and bottom line growth. Over the past several years this has substantially improved profit leverage and segment operating profit margin. The team has done a tremendous job working with our retail partners to build a robust, growing and profitable business.

The International segment revenues grew 16% absent FX and emerging markets increased 15%. We continue to expect modest double-digit growth in the emerging markets going forward. Our regional teams are navigating challenging economic environments but are successfully driving our brands and positioning Hasbro for profitable growth over the long-term.

In closing, 2015 was a very good year for Hasbro. Positive momentum in Hasbro Franchise Brands and our Partner Brands positions us to capitalize on the innovation and entertainment our teams are delivering in

2016 and beyond. As Deb will discuss, Hasbro is in a very strong financial position. We continue to strategically invest in brands and initiatives where we see additional revenue and earnings potential, while returning excess cash to shareholders.

This Friday, February 12th, is our annual Toy Fair investor event. We look forward to seeing you in NY and sharing with you our future brand and business initiatives.

I'd like to now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

As Brian mentioned, Hasbro's financial position is as strong as ever. We have tremendous momentum in our brands and we are driving profitable growth throughout our business. Our global teams faced an extremely challenging currency environment and delivered successful programs to manage retail, consumer and business demands, while improving the profitability of Hasbro.

In 2015, absent FX, we grew revenues across all operating segments and major geographic regions as well as in both Franchise and Partner Brands. We delivered cost savings, while investing in the future growth of our business. Finally, we generated $552 million in operating cash flow, ending the year with close to one billion dollars in cash on the balance sheet.

We remain committed to our capital allocation priorities of investing in our business while returning excess cash to our shareholders through our dividend and share repurchase programs. Today's announced 11% dividend increase coupled with $479 million in available share repurchase authorizations enables us to continue on this path.

Looking at our segments for the full-year 2015, Revenues in the U.S. and Canada segment increased 10%. Excluding a $14 million dollar negative impact from foreign exchange, segment revenues increased 11%.

Growth in the Boys, Games and Preschool categories more than offset a decline in the Girls category. Hasbro Franchise Brand revenue increased 1% behind growth in NERF, PLAY-DOH, MAGIC: THE GATHERING and LITTLEST PET SHOP, which offset the expected decline in TRANSFORMERS. Partner Brands STAR WARS, JURASSIC WORLD, MARVEL and DISNEY'S DESCENDANTS also contributed to the segment's growth. FURBY revenue was down as expected.

U.S. point of sale posted double digit growth in all categories other than Girls, which declined 2%. Retail inventory was of very good quality at year end.

Operating profit in the U.S. and Canada segment increased 29% for the year, reflecting higher revenues, the impact of cost saving activities and a favorable product mix.

In the International segment, foreign exchange had a negative $379.4 million dollar impact on revenues. Absent this impact, International segment revenues grew 16% and emerging markets increased approximately 15%.

Including the impact of FX, revenues decreased 3% and emerging market revenues decreased 9%.

Internationally, as reported revenues in the Boys and Preschool categories increased but were more than offset by declines in the Games and Girls categories. Franchise Brand revenues declined 6% despite growth in PLAY-DOH, NERF and MONOPOLY. Additionally STAR WARS, JURASSIC WORLD, MARVEL and DISNEY'S DESCENDANTS were positive contributors. As expected, FURBY and TRANSFORMERS each had a significant revenue declines for the year.

Absent FX, operating profit in the segment increased 12%. On a reported basis, operating profit declined 6% reflecting the negative foreign exchange impact.

Foreign exchange is anticipated to negatively impact 2016 as well. At our current expected 2016 rates, our 2015 revenues would have been approximately $100 million less than what we reported. We anticipate approximately 15 to 20% of this impact will fall to the 2016 operating profit line.

The Entertainment and Licensing segment revenues grew 11%. The segment benefited from a multi-year digital streaming deal for Hasbro Studios television programming signed during the first quarter 2015. In addition, consumer product licensing revenues increased for the year, overcoming a difficult comparison with *TRANSFORMERS* movie related merchandise and revenues.

Segment operating profit increased 27% and margin grew to 31.4%. We continue to make investments in our consumer products team, digital gaming and storytelling to drive future growth in these higher profit revenue sources.

Turning to overall expenses for Hasbro,

Growth in royalty-bearing entertainment partner revenues and, to a lesser extent, the entertainment and licensing segment revenue, combined to deliver a favorable product mix. This mix, in turn, drove lower cost of sales, which were 37.7% in 2015 versus 39.7% in 2014.

In conjunction with the higher partner brand revenue mix, royalties increased to 8.5% of revenues. Combined, cost of sales and royalties decreased approximately 60 basis points year over year.

As Brian mentioned, the execution of our strategy and our focus on improved efficiency is creating sustainably higher levels of gross margin for Hasbro. As we look to 2016, as a percent of revenues, we anticipate cost of sales of 38% and royalties lower at 8%.

Operating profit dollars and margin grew year-over-year. Higher revenue and operating expense leverage more than offset investments we are making. As we continue to execute our Brand Blueprint, we are focusing on fewer brands, expanding our licensing revenues and improving the efficiency of our operations. These changes in our business model are creating more innovative product and higher gross and operating profit margins in our business.

To fully execute our strategy, investments in innovation are paramount to our long-term success. Product development totaled 5.5% of revenues. This includes the investment in our DISNEY PRINCESS and DISNEY'S FROZEN offerings for which revenues commenced in January in a more meaningful way.

We will also continue to invest in building awareness for our brands. In 2015, advertising declined to 9.2% of revenues. This decline is primarily due to the higher percent of entertainment-backed revenues which traditionally carry less advertising spend.

Intangible amortization declined for the year as some of our assets have been fully amortized.

Program production cost amortization declined slightly to 1.0% of revenues. Storytelling is an important element of our brand building and we will continue investing in content development, for television, film and other mediums.

SD&A increased 8% for the year. A number of factors contributed to the growth in expenses. As we outlined in previous calls and in our November Investor Day, we continue to make strategic investments in our business. This includes investing in the digital platform for MAGIC: THE GATHERING. This is a multi-year investment program, which we believe will expand the potential market for Magic over the long-term.

In addition, our IT expense and depreciation is higher, reflecting our increased investments in improving the efficiency of Hasbro going forward. As we outlined in November, these expenses increased in 2015, and will again increase in 2016 and 2017. In 2018 we anticipate they will begin to decline.

Compensation expense was also higher reflecting the strength of our results.

We are able to expand operating profit while making incremental investments given the ongoing focus of our teams on managing expenses and the inherent financial advantages of executing our Brand Blueprint strategy.

Turning to our results below operating profit for the quarter:

On an as adjusted basis, other income was $2.5 million compared to an expense of $8.5 million last year. The improvement resulted from increased profits associated with our 40% share of the operating income in the Discovery Family Channel as well as lower losses from foreign exchange transactions.

The 2015 underlying tax rate was essentially flat with last year at 26.4% versus 26.5%. Our 2016 tax rate is anticipated to remain in the range of 26.5% to 27.0%. This will fluctuate to reflect the geographic mix of profits.

On an adjusted basis, diluted earnings per share for the year were $3.51 versus $3.15 in 2014.

Our balance sheet remains strong.

Of our nearly one billion dollars in cash at year end, almost all of it is located outside the U.S.

We returned $310.7 million to shareholders in 2015: $225.8 million in dividends and $84.9 million in share repurchase.

We announced today that the Board has approved an 11%, or five cent per share, increase in the quarterly dividend. The new quarterly dividend rate of $0.51 per share will be payable May 16 to shareholders of record on May 2. We will continue returning excess cash to shareholders through our dividend and share repurchase program.

Receivables at year-end were up 11% and DSOs declined one day to 75 days. Absent the impact of foreign exchange, receivables increased approximately 23%, equal to the fourth quarter revenue growth absent FX.

Inventories increased 13% versus last year. Adjusting for a negative foreign exchange impact, inventory increased 24% in line with our growing business and entertainment schedule. Our inventory both at retail and at Hasbro is of high quality and we are well positioned to meet demand in 2016.

In closing, 2015 was an extremely strong year for Hasbro. We continued to make important advances in the execution of our strategy and we invested in strategic initiatives to drive long-term shareholder value creation. We have positive momentum in our business and we are well positioned for 2016 and beyond. We look forward to sharing more with you on Friday at Toy Fair.

Brian and I are now happy to take your questions.