Hasbro Second Quarter 2011
Financial Results Conference Call Management Remarks
July 18, 2011

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me today are Brian Goldner, President and Chief Executive Officer; David Hargreaves, Chief Operating Officer; and Deb Thomas, Chief Financial Officer.

Our second quarter 2011 earnings release was issued earlier this morning and is available on our website. The press release includes information regarding Non-GAAP financial measures included in today's call. Additionally, whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

This morning Brian will discuss key factors impacting our results and Deb will review the financials. We will then open the call to your questions.

Before we begin, let me 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 and strategies, costs, financial goals and expectations for our future financial performance and 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.

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 morning everyone and thank you for joining us today.

The Hasbro team executed our global branded-play strategy to deliver not only a strong second quarter, but also continuing to create the framework to deliver meaningful growth for the year and in the coming years. Today, we are driving growth in our business through immersive brand experiences which are more innovative, more global, and increasingly backed by media and entertainment, and in many cases backed by digital and online gaming. In addition, we are licensing our brands in a growing number of relevant ways for global customers and consumers. We are executing our full brand blueprint for Hasbro brands, while working with great long-term partners to support their brands – including Marvel, Lucasfilm and Sesame Workshop. To execute this strategy we are leveraging the investments we have made and are continuing to make to expand the reach of our brands for the long-term growth of our business.

Despite being in the early stages of unlocking both the revenue and earnings potential of our strategy, in some areas we are already seeing positive results from our investments. For example, our International business is growing, posting 43% revenue growth in the second quarter or 30% growth absent the impact of foreign exchange. This marks our third consecutive quarter of double-digit revenue growth in the segment. The growth this quarter comes not only from the continued strong performance in our emerging markets where we are establishing Hasbro's presence for the long-term, but from other more mature markets as well. We are at an inflection point in our business, whereby you can no longer just look at the U.S. business and extrapolate that to represent all of Hasbro. International is as important to us now as the U.S. and will be even more meaningful go forward. In fact, we could see revenue outside the U.S. greater than our U.S. revenue in the coming years. A balanced, global business not only provides incremental growth opportunities but has served to help offset some of the continued challenges in the U.S. economy.

In the quarter, the profitability of the International segment nearly tripled as higher revenue more than offset investments in the segment. This profitability growth in the second quarter is very encouraging given the segment generally contributes more to our profitability in the second half of the year. Specifically, over the last five years, the second half of the year has represented, on average, virtually all of the International segments' full-year operating profits.

From a brand and entertainment standpoint, the second quarter marked the theatrical release of *TRANSFORMERS: Dark of the Moon* as well as the on-shelf date of product to retailers globally. The movie has delivered approximately $700 million at the global box office and has yet to open in China and Japan. The film has the highest exit poll reviews from audiences of any of the prior TRANSFORMERS movie and this bodes well for sustained interest until the DVD arrives in the fall backed by an extensive home entertainment strategy from Paramount during the fourth quarter.

Importantly, our global retail partners have embraced the *TRANSFORMERS: Dark of the Moon* merchandise program in Toys, Apparel, Publishing, DVD, Video Game and other Licensed goods. These merchandise programs include significant aisle space, feature shops, trend pods, endcaps, pallets and more. Promotional programs at retail ramped in mid-June as promotion for the movie began in earnest at that time. We have a great licensing program with over 325 licensing partners. Product is available through our global retail partners and we have everything from apparel to skateboards and bikes to publishing.

Another top performer in the quarter, BEYBLADE, continues to be in high demand globally. From a capacity standpoint, we increased our tooling this year and expect to be caught up with demand in the coming weeks. Our new BEYBLADE XTS, extreme top system, will be on shelf in August and brings strong innovation to BEYBLADE globally. The next season of programming, “Beyblade Metal Masters” will be on Cartoon Network in the U.S. this fall and various broadcasters worldwide.

Other Boys brands contributing to growth in the quarter were SUPERSOAKER, TONKA, and Marvel, including Captain America: The First Avenger, which is selling well leading into the movie release this Friday, as well as our initial shipments of KRE-O.

Beyond strength in what is shaping up to be a very strong year for Hasbro's Boys brands, our Girls brands MY LITTLE PONY, FURREAL FRIENDS, and BABY ALIVE were up in the quarter. In Games and Puzzles, MAGIC: THE GATHERING; SCRABBLE, SIMON, CUPONK and our line of Cars 2 games grew revenues in the second quarter. Within Preschool, we began shipping Sesame Street product during the quarter.

Of these brands posting growth, MY LITTLE PONY is an interesting proof point to discuss as it relates to television. As you know, the MY LITTLE PONY brand has been re-invented based on Hasbro Studio's animated series My Little Pony Friendship is Magic. The program is airing on The Hub in the U.S. and Treehouse in Canada. On both networks, it is a top rated program. In Canada, the program began airing in January on Treehouse and point of sale trends at our top 4 accounts are up over 30% year to date, through July 2.

In the U.S., The Hub recently began its summer schedule which has the program airing 7 days a week. While still early, U.S. POS at our top four accounts was up 9% in June versus May.

Additionally, MY LITTLE PONY recently began airing on Cartoon Network's UK Boomerang Channel. It is in the top five shows airing on the network and compared to the channel's previous 4 weeks average for the same timeslot, the show boosted the channel rating by 53%.

By this fall, we expect entertainment to be airing in markets which represent 90% of MY LITTLE PONY business. We are also receiving tremendous feedback from key licensees and retailers around the world based on the strength of the entertainment and broad consumer interest. MY LITTLE PONY has all the right ingredients to fill a gap in the market place that currently exists for a strong, young girls', multi-category property. MY LITTLE PONY is an important brand for Hasbro and we are delighted to see it posting growth again based on engaging entertainment, innovative product and strong retail support.

Our overall television initiatives, which speak to both The Hub in the U.S. and our international distribution of programming, remain on track for the long-term. The Hub recently implemented a new summer schedule which reflects a higher percentage of programming from Hasbro Studios. This new summer schedule on The Hub has delivered widespread gains over the pre-summer schedule, outpaced the percentage growth among Kids 2-11 of the new summer schedules against a few competitive networks and produced the highest ratings of the calendar year for The Hub.

Internationally, we continue to sign new deals and currently have placed Hasbro Studios programs in all major European markets including the UK, France, Spain, Italy, Germany and the Middle East, as well as important emerging European markets like Russia, Turkey and Poland. In Asia, we have deals in place for Australia, New Zealand, Singapore, Hong Kong and Korea. Finally, in Latin America our programming will be seen in Mexico, Brazil, Chile, Argentina and Peru.

I'd like to take a minute and speak with you about our games business. Following a softer than expected 2010 holiday season, our games & puzzles category has been working off excess inventory this year. While POS trends in the U.S. have improved in recent weeks, and despite growth in the category internationally in the quarter, the games and puzzles category overall declined in Q2. I know from speaking with many of you that you are worried about the future of the games business and what it means for Hasbro. I want to tell you, I am not worried. Given the expected growth of our business in other categories this year, 2011 is a perfect time for us to take strategic steps to accelerate the innovation and evolution of our gaming business.

In this vein, we took an important step when we announced the Center of Excellence for Hasbro Games in Rhode Island. This center will bring the top games talent in the industry together with the broader

Hasbro brand teams to drive integrated, innovative gaming experiences for not only traditional face-to-face gaming – both on and off the board – but in video, digital and online gaming as well. It is an investment we are making to fully leverage the long-term potential of this business.

To lead this coordinated effort, we have named Eric Nyman, a proven global brand leader at Hasbro, to head the combined team. Eric has led the re-invention and re-ignition of several key Hasbro brands including NERF and FURREAL FRIENDS and we are confident that he and his teams' innovative thinking will bring a fresh perspective to our gaming initiatives.

Where we are driving innovation, in brands like MAGIC: THE GATHERING and SCRABBLE, we are seeing growth. We know that the number of gamers in the market is growing, research tells us that parents and kids alike want to spend time together, and by keeping our gaming experiences fresh and relevant while leveraging the industry's best portfolio of brands we believe the gaming business will continue to be a strong contributor to Hasbro over the long term.

It is important to point out, that from a profitability standpoint, we have dramatically grown Hasbro's operating profit in recent years by building bigger, more global brands in all categories, not just in games. Our strategy has enabled brands across the business to rival the profitability of our traditionally higher margin games brands.

As we begin Q3, a number of our initiatives for Fall will begin hitting retail shelves around the world:

- KRE-O, our new construction brand built on TRANSFORMERS is on shelves now and is launching globally in Q3. Already a few of you have told us you are playing with and enjoying the sets and we are seeing strong point of sales trends with this new initiative;

- Sesame Street product, including LET'S ROCK ELMO, is hitting shelves for the fall and holidays and we are very excited about beginning this long-term relationship with Sesame Workshop in our Preschool space;

- LITTLEST PET SHOP brings walkable pets to the market for the first time; MY LITTLE PONY continues to build on its entertainment platform globally; and FURREAL FRIENDS has another great pet, COOKIE, coming this holiday season;

- Finally, while last quarter we had shared with you that we expected Hasbro Studios to launch programming on more than 20 markets globally by year-end, today I am pleased to say that due to the hard work of our teams and the strong appeal of our shows, we currently expect Hasbro Studios programming in over 30 markets globally by year end.

As I stated earlier in the year, we began to build momentum in the business during the second quarter. During the quarter, retailers were focused on key entertainment properties, including TRANSFORMERS, and we are seeing strong representation around the world. As we head into the remainder of the year, we'll begin to see the innovation in additional categories on shelf and we'll also begin to recognize licensing revenue from *TRANSFORMERS: Dark of the Moon*.

As we shared with you at the beginning of the year, 2011 is the first year in which we are fully activating our brand blueprint across all its elements. Our evolution to a branded play company necessitates a higher level of investment spending in several areas, including television, entertainment, licensing and online. Additionally, we have been investing in Hasbro's owned and operated offices around the world as we establish Hasbro as a global leader.

As we have shared with you in the past, many of these investments are ahead of the associated revenue they will create and in the quarter have limited our margin expansion. As we go forward to the full-year 2011 and beyond, we believe these investments will pay dividends in revenue and profitability improvements.

In sum, our outlook for 2011 is similar to yours in that we expect to deliver meaningful revenue and EPS growth for the full year.

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

Deb Thomas, Hasbro CFO

Thank you Brian, and good morning.

Hasbro is in a strong position entering the important second half of the year. Our cash position is healthy, investments overseas are driving growth, and we have exciting innovation across our businesses for the holidays. The second quarter was driven by a number of strong brand performances as worldwide net revenues increased 23% to $908.5 million versus $737.8 million last year. Foreign exchange had a positive $35.8 million impact on net revenues for the quarter. Excluding the impact of foreign exchange, net revenues grew 18%.

As Brian mentioned, during the quarter we announced the creation of our Center of Excellence for Hasbro Games in Rhode Island. As a result, we are relocating 59 employees to Rhode Island and we had a reduction in force of 96 people.

In the second quarter, we recorded a $13.1 million pre-tax expense, or $0.06 per share, for severance, relocation and related costs. These costs were approximately evenly split between Product Development and SD&A. We anticipate an additional $7 million in costs over the next three to four quarters. These remaining costs are primarily associated with the recruiting of additional talent and office space to support the expansion of our business and teams in Rhode Island.

Excluding these costs, operating profit grew 17% for the quarter to $93.5 million or 10.3% of revenues, versus $79.7 million or 10.8% in 2010.

Looking at our segment results for the second quarter 2011:

The U.S. and Canada segment net revenues were $505.0 million, up 14% versus $444.5 million last year. As expected, the Boys category posted strong growth in the quarter which was partially offset by declines in the Games & Puzzles, Girls and Preschool categories.

The U.S. and Canada segment reported an operating profit of $57.7 million or 11.4% of revenues. This compares to $58.7 million or 13.2% of revenues in 2010. The decline in operating profit margin reflects a higher volume of sales related to close-out inventory as we work down our carryover from last year. Although we wrote this inventory down last year, the subsequent sale has minimal to no profit. This more than offsets the favorable impact on profits from higher revenues of TRANSFORMERS and BEYBLADE.

Net revenues in the International segment increased 43% to $374.5 million versus $261.4 million in 2010. Absent a positive foreign exchange impact of $34.1 million, net revenues in the International segment grew 30%. The results in this segment reflect growth in all major geographic regions, including the emerging markets, as well as growth in the Boys and Games & Puzzles product categories partially offset by declines in the Girls and Preschool product categories.

Operating profit in the International segment nearly tripled in the quarter, increasing 191% to $33.8 million, compared to an operating profit of $11.6 million in 2010. Operating profit improved on higher volume in the quarter which leveraged our spending and more than offset our continued investment in emerging markets and international expansion. Historically, a greater portion of full year operating profit is derived in the latter half of the year and we are encouraged by the second quarter levels.

The Entertainment and Licensing segment net revenues decreased 11% to $27.2 million compared to $30.5 million in 2010. Revenue in the Entertainment and Licensing segment declined primarily due to lower movie-related revenue versus the second quarter 2010, which included a payment related to the BATTLESHIP film scheduled for release in 2012. This was partially offset by revenue associated with selling our television programming to The Hub and some international networks. As Brian mentioned, we have a strong licensing program for *TRANSFORMERS: Dark of the Moon* and licensing revenue associated with the film will begin to be recorded in the third quarter 2011. As you know, our licensing revenue in entertainment brands lags traditional toy and game revenue by a quarter due to when our licensing partners report their revenue to us.

For the second quarter, the Entertainment and Licensing segment reported an operating profit of $600,000 compared to $13.0 million in 2010. These results reflect the lower movie-related revenue, year-over-year increases in on-line investments, and our incremental investments in building out the global talent of our licensing team. Program amortization was largely offset by television programming revenue in the quarter.

Now let's look at earnings:

For the second quarter 2011, we reported net earnings of $58.1 million or $0.42 per diluted share compared to $43.6 million or $0.29 per diluted share a year ago. This includes a favorable tax adjustment of $20.5 million or $0.15 per diluted share which relates to previously unrecognized tax benefits and other adjustments resulting from the completion of a tax audit. Additionally, in the quarter we recorded pre-tax expense of $13.1 million, or $0.06 per diluted share, from severance, relocation and related costs associated with establishing our Center of Excellence for Hasbro Games in Rhode Island.

Excluding both these items, net earnings were $46.0 million or $0.33 per share.

For the quarter, average diluted shares were 139.2 million compared to 148.5 million last year.

Cost of sales in the quarter was $378.0 million or 41.6% of revenues, versus $300.3 million or 40.7% of revenues in 2010. Despite a positive impact from higher priced royalty bearing products, cost of sales as a percentage of revenue, was higher due to the level of sales of close-out inventory from last year at low to no margin, as well as the impact of unfavorable manufacturing variances from a slowing of games production.

Operating profit margin in the quarter was 8.9% including $13.1 million of severance, relocation and related costs. As I mentioned previously, these were approximately evenly split between product development and SD&A. Excluding these costs, operating profit was 10.3% versus 10.8% last year.

Overall, our year-over-year run rate of expenses is at a higher level than in 2010 as we have funded important growth initiatives in the past year, including driving future product innovation through investments in product development, developing and expanding our emerging markets business through talent and marketing investments, building out our global licensing team as well as supporting our television initiatives globally.

We have already begun to see leverage from these investments in the International Segment and we expect in the second half of the year we will gain some additional leverage from these investments as well as anniversary the increase in costs in certain areas. Specifically, costs for lifestyle licensing, digital gaming, movies, television and online, all within the Entertainment and Licensing segment, have a current quarterly fixed expense run rate of approximately $15-16 million. We grew our investment in the quarter in licensing, TV and online and much of these expenses have been added ahead of the incremental revenue we anticipate generating in future periods.

Advertising, at 9% of revenue, declined as a percentage of revenue. This is consistent with previous years that had significant entertainment initiatives - advertising as a percentage of revenues is expected to be at the lower end of our typical annual range of 10-11% of revenues.

In contrast and as expected, royalties grew in the quarter reflecting increased entertainment-based offerings. For the second quarter, royalties were 9% of revenue versus 6.8% in 2010. This is primarily the result of royalties related to TRANSFORMERS movie products and BEYBLADE.

Within SD&A, emerging market and international expansion were key drivers of higher spending levels. We also had increased spending associated with our licensing business and our non-cash SAP depreciation, which began in the first quarter. Foreign exchange also was a factor in our SD&A increase in the quarter. Additionally, $6.7

million of the costs associated with the games action was in SD&A in the quarter. For the full year, we continue to expect SD&A to be below 20% of revenues including the costs associated with our games group.

Moving below operating profit:

Other expense, net, totaled $4.6 million compared to other income, net, of $3.2 million a year ago. The year-over-year change was primarily the result of higher foreign currency losses in 2011 compared to 2010 on non-hedged transactions due to a weaker U.S. dollar.

Additionally, our 50% share of The Hub is included in this line on the P&L. For the second quarter, our share of the earnings in The Hub was income of $197,000 compared to a loss of $76,000 in the second quarter 2010.

For the second quarter 2011, our underlying tax rate was 27.7% compared to an underlying tax rate of 28.5% in 2010.

Now let's turn to the balance sheet:

At quarter end, cash totaled $584.8 million compared to $872.3 million a year ago.   Operating cash flow for the past twelve months was $324 million and includes $73 million in television programming costs over the period.

In December 2010, we entered into a new $500 million credit facility which extends through December 2014 and in January of this year we established a commercial paper program to allow us to issue commercial paper as a source of short-term liquidity as needed.

During the second quarter 2011, we repurchased a total of 2.4 million shares of common stock at a total cost of $112.0 million and at an average price of $45.80 per share. In the first two quarters 2011, the company repurchased 3.8 million shares at a total cost of $175.7 million and at an average price of $45.69. At quarter end, $474.5 million remained available under our current share repurchase authorization.

The quality of our receivables portfolio remains good and receivables at quarter end were $838.0 million, up 26 percent compared to $663.5 million last year. This reflects the 23 percent growth in revenues and an impact from foreign exchange.

DSO's were 83 days, up 2 days versus last year. The increase is primarily due to lower licensing revenues which have shorter payment terms combined with the increased revenue in international emerging markets which have longer payment terms.

Inventories at $426.9 million compared to $342.1 million a year ago and $401.3 million at the end of the first quarter. While inventories increased year-over-year, $23.5 million was the result of foreign exchange differences and the overall growth was not as big as it has been in the past several quarters. During the quarter, we took steps to move some slower moving carry-over inventory which negatively impacted our cost of sales but helped to improve the quality of our inventory portfolio. Overall, our inventory quality is good and we believe sufficient to support our continued expected international growth and the exciting new initiatives we have coming which Brian spoke of earlier.

Depreciation and capital expenditures in the quarter were $28.3 million and $28.7 million, respectively.

Overall, we believe we are on plan to deliver a strong 2011. The second quarter showed healthy revenue growth, and with the innovation we have coming to retailers globally this fall, we believe we will deliver meaningful revenue and earnings per share growth for the full-year versus the $4 billion in revenues and $2.74 in earnings per share we reported in 2010.

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