Hasbro First Quarter 2018
Financial Results Conference Call Management Remarks
April 23, 2018

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me this morning are Brian Goldner, Hasbro's Chairman 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 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 adjustments and Non-GAAP financial measures. Our call today will discuss certain Adjusted measures, which exclude these Non-GAAP Adjustments. A reconciliation of GAAP to non-GAAP measures is included in the release and presentation.

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 Goldner, Hasbro Chairman and CEO:

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

The Hasbro teams around the world are doing an excellent job navigating a challenging and dynamic industry environment.

We remain focused on executing our Brand Blueprint to profitably grow for the long-term. Our strong financial position enables us to continue investing in our brands, in consumer insights, in innovation, in storytelling and in our teams, while making strategic long-term decisions to accelerate our efforts and to advance our business.

The global retail environment is rapidly evolving. How consumers discover brands, engage with brands and ultimately purchase products within brands are converging. Consumers' shopping and buying actions are moving in all directions, from brick and mortar to omni-channel while adding mobile. Hasbro continues to onboard new skills and talents needed to thrive as a global play and entertainment company in a converged retail world. In the first quarter we took steps to accelerate our commercial organization's transformation. Much of this impact will be in Europe, where we have new leadership and we are working to clear the excess inventory we discussed with you at year end.

This transformation is already evident in the U.S., and over the past 3 years we have grown our retail distribution by more than 21,000 doors, net of recent store closures at traditional retailers, and we have developed our digital and content-to-commerce capabilities.

The liquidation of Toys“R”Us in the U.S. and in the U.K., along with ongoing uncertainty around its other operations, has created near-term disruption in our business. The liquidation began in the first quarter and will continue with increasingly lower liquidation pricing in the second quarter. We anticipate the revenue impact will be most pronounced in the first half of the year, with a lesser impact in the third and fourth quarters including the important holiday season. We expect the U.S. liquidation will conclude at the end of the second quarter and we still don’t have resolution on the international markets plans. Our expectation continues to be that it will take about a year to work through this disruption and we will drive growth in 2019 and beyond.

In addition to the Toys“R”Us impact, we entered the year with work to do to clear through carry-forward inventory, in particular in Europe. We also planned our business to phase revenue later in the year.

The quarter’s reported financials reflect these factors on shipments across brands and categories. However, consumer takeaway demonstrates the strength of our brands and initiatives. Hasbro brands and partner brands are selling well. Our marketing efforts and product innovation are driving high demand across retailers. Franchise Brands, Partner Brands and Hasbro Gaming takeaway is up sizably. Online point of sale continues to grow significantly faster than total point of sale and revenues grew in each product category. In the U.S., even when you remove Toy“R”Us from the analysis, consumer takeaway is significantly up across our Franchise, Partner and Gaming categories.

Our global retailers view this as an opportunity to gain share in a key consumer category and they are partnering with us to develop growth plans for our brands going forward. We managed our new initiatives, shipping in the quarter and beyond, to avoid being caught up in the liquidation process. Our new Quick Strike products, which we previewed with you at Toy Fair and tap into consumer trends, are coming later this year.

We are working aggressively around the world to put the impact of Toys“R”Us behind us. Importantly, this is not something happening to our Company. We are taking control of the situation, making strategic decisions in how we approach the market, how we grow and the steps we are taking to build our capabilities and transform our organization. We have great confidence in the outlook for our brands and the ability of Hasbro to become even stronger in a rapidly developing converged retail environment.

Franchise Brand point of sale grew across the brands in this portfolio. With significant innovation, combined with multi-screen storytelling, we have confidence in the underlying demand for our brands. *TRANSFORMERS: BUMBLEBEE*, our first film under our new Paramount production and distribution agreement, hits theatres this December and marks an important evolution in Hasbro's role as storytellers.

MAGIC: THE GATHERING began this year as planned, with revenues down in the first quarter. While point of sale data for MAGIC: THE GATHERING is not captured by NPD, in March, we saw positive fan reaction to the spring set, Dominaria, which fans celebrated at prerelease events this past weekend and it goes on sale next weekend. MAGIC: THE GATHERING ARENA, our new digital platform, is moving to the next stage of the Beta process and is now being streamed and shared with more players ahead of its launch later in 2018. Feedback continues to be positive, and we are making continual enhancements during this period, prior to launch.

Within Hasbro Gaming, consumer demand remains strong. New launches, such as HEARING THINGS and DON'T STEP IN IT, performed well and tapped into social gaming trends. In addition, DUNGEONS AND DRAGONS and JENGA grew revenues. We continue to see immense interest in gaming from consumers of all ages and

Hasbro is investing to further leverage our advantage and reach in this area.

Partner Brand point of sale increased behind the MARVEL line-up, and BEYBLADE, which is off to a very strong start in its second year.

We couldn't be more excited about the success of BLACK PANTHER, and early on we agreed with Marvel that this property had strong potential. As a result, the BLACK PANTHER product line is the broadest line we have ever created for a Marvel Studios 'origin film', including IRON MAN, CAPTAIN AMERICA, THOR, and even the ensemble film GUARDIANS OF THE GALAXY. Point of sale of Hasbro items from BLACK PANTHER is performing well ahead of everyone's expectations. We are working to satisfy demand and deliver new products throughout the year to capitalize on the May home entertainment release and the key holiday season. We also began shipping *AVENGERS: INFINITY WAR* product in the first quarter. We expect both properties to contribute throughout 2018.

Star Wars remained the #1 property in the G9 markets, according to NPD, and we continue to see improvement in the year-over-year point of sale comparisons. *SOLO: A STAR WARS STORY* product is now available ahead of the film's release on May 25th. During the quarter we launched our HasLab crowd sourcing campaign. Our first initiative is the largest STAR WARS vehicle ever from Hasbro: Jabba's Sail Barge. The campaign exceeded our expectations with over 8,000 backers for this $499 product. This showcased not only amazing innovation from our team but the power of digital consumer engagement to launch meaningful direct to consumer initiatives.

Looking forward in 2018, there are going to be continued challenges, while new opportunities arise. We believe we have made the best decisions to position us for a good year, and most importantly to continue to grow our business going forward. Our medium-term guidance, which we shared in February, remains firmly in place. 2018 will be a year of adjustment, but beyond this year we continue to believe that over the next few years, developed economies can grow low to mid-single digits through innovation, entertainment and market share gains and emerging markets can grow double-digits, both absent the impact of foreign exchange. We believe operating margins are not only sustainable but will improve over the next two to three years. Finally, we anticipate our annual operating cash flow in the range of $600 to $700 million.

I will now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you, Brian and good morning everyone.

This was a challenging quarter – we said early on it would be challenging and it became even more so when Toys“R”Us moved to liquidate its stores in the U.S and the U.K. But our teams have shown great resolve and are working effectively through the issues. We are taking steps to strengthen our business, including accelerating actions to transform our commercial organization, in particular outside the U.S., and we are positioned and planning for long-term growth.

Hasbro is executing from a very healthy financial position. The first quarter is our smallest quarter, and changes in the business are magnified during this period. While we don’t plan to completely offset all the Toys“R”Us disruption this year, the impact will decrease in the second half. Incremental store closures are happening now, and there is near-term uncertainty in several of their remaining international businesses. While this will further impact 2018 shipments, we do not expect further material expenses.

Our cash flow outlook remains intact, and despite a $59.1 million dollar bad debt charge related to Toys“R”Us, we are targeting operating cash flow in the $600 to $700 million range for the year. We ended the quarter with just under $1.6 billion in cash, while returning $109.6 million to our shareholders through our dividend and share repurchases. An 11%

increase in the quarterly dividend takes effect for our next dividend payment in May.

The impact of lost revenues from Toys“R”Us and our efforts to work through retail inventory is evident across both U.S. and Canada and International segment results.

In the U.S. and Canada segment, revenues declined 19%. Partner Brand revenue increased slightly, but Franchise Brands, Hasbro Gaming and Emerging Brands revenues declined. Point of sale is up, with only Emerging Brands declining slightly. Retail inventory declined as we work through inventory and manage the Toys“R”Us liquidation in the U.S.

The U.S. and Canada segment reported an operating loss in the quarter, due to lower revenues and $52.3 million of expenses related to Toys“R”Us, which was primarily bad debt. Adjusted operating profit was $28.9 million, which is the result of lower revenues in the quarter and higher freight and warehousing expenses.

International segment revenues declined 17% including a favorable $19.5 million dollar impact from foreign exchange. Latin America and Asia Pacific grew revenues but were more than offset by a 28% decline in Europe. The lower revenues in Europe were the result of carry-forward retail inventory we are working to clear through, and to a lesser extent, the U.K. liquidation and uncertainty around other Toys“R”Us operations. In addition, a French Retailer was put in receivership during the quarter.

The International segment reported an operating loss of $56.1 million. This includes $11.2 million of expense associated with Toys“R”Us. Excluding this item, the segment had an adjusted operating loss of $44.9 million. The operating loss was primarily the result of lower revenues.

Entertainment and Licensing segment revenues increased 21%, behind growth in consumer products and digital gaming. As we discussed at Toy Fair, the adoption of the new revenue recognition standard meant revenues received from our licensees will be recorded on a more ratable basis throughout the year, as opposed to a bigger uptick in the fourth quarter. The adoption of this standard also contributed to the segment’s higher revenues.

Operating profit increased 23% on the higher revenues.

Overall, Hasbro operating profit margin was negatively impacted by expenses associated with Toys“R”Us and severance costs from our commercial organization transformation. Adjusted operating profit declined due to lower revenues which could not absorb the Company’s fixed costs in the smaller first quarter.

It is early in the year, however, our current full year outlook, absent the expenses associated with Toys“R”Us and severance, is that we could achieve an operating profit margin in line with 2017’s level of 15.6%. As Brian said, we believe we can increase operating profit margin in future years.

Earlier this year, I outlined several margin levers to drive operating profit margin expansion going forward, including growth in higher margin Franchise Brands, Hasbro Gaming and Entertainment and Licensing revenues, as well as profit improvement in our emerging markets and efficiencies from our system investments. Our future outlook is not impacted by this near-term disruption.

Cost of sales declined as a percentage of revenue driven by growth in higher-margin Entertainment and Licensing revenues and a disciplined commercial approach to pricing and shipping product into our global retailers. We expect cost of sales to decline on a full-year basis, and approach, but perhaps not match, the 38% level we reported in 2016.

Underlying royalty expense declined on lower Partner Brand revenues; however, our reported royalty expense in the quarter increased as we incurred accelerated expense associated with lower Toys“R”Us revenue for our Partner Brands. For the full year, underlying royalties as a percentage of revenues are expected to be in line to down slightly versus last year’s rate of 7.8%.

Product development declined in dollars in the quarter but on a full-year basis, as a percentage of revenue, is expected to be consistent with 2017.

Program production amortization increased as we are amortizing *MY LITTLE PONY: THE MOVIE* production expense, in addition to television programming. Program amortization as a percentage of revenue for the full year should be flat to up slightly versus last year.

SD&A includes several unusual items, notably $59.1 million of bad debt associated with Toys“R”Us, and severance costs from accelerating our commercial organization transformation. Absent these items, SD&A increased due to foreign exchange, investment in IT systems and higher freight and warehousing expenses. Our underlying full-year SD&A forecast is for a slight increase as a percentage of revenue.

Turning to our results below operating profit:

Other income declined slightly, primarily due to a smaller gain on foreign currency this year versus last.

Our underlying tax rate, absent the impact of tax reform, was 16.5%, compared to an underlying rate of 24.9% last year and 19.9% for the full-year 2017. The lower rate reflects the benefit of U.S tax reform. During the quarter we also recorded a discrete charge of $47.8 million, or $0.38 per diluted share, related to an increase in our repatriation tax liability and a reversal of tax benefits no longer permitted under new guidance. As we stated at year end, the charge we took then was provisional and expected to change as there was clarification to the new law. We anticipate there will be additional guidance on tax reform that will require consideration and interpretation going forward. We expect our full-year underlying tax rate to be at the high end of our previously projected range of 15% to 17%.

For the first quarter, adjusted earnings per share was $0.10 and reported earnings per share was a loss of $0.90.

Hasbro's balance sheet is strong. We ended the quarter with $1.6 billion in cash and we paid $70.8 million in dividends and repurchased $38.8 million in common stock. Both our debt to EBITDA and EBITDA to interest ratios at 1.9 and 9.2, respectively, are favorable to our targets.

Receivables decreased 9% and days sales outstanding were 78 days. We recorded a bad debt charge for Toys"R"Us in the quarter and we believe we are adequately reserved for our historical shipments. We don't expect to have any material expenses associated with Toys"R"Us going forward.

Inventories increased on lower revenues, as we held more in our warehouses during the quarter. Approximately one quarter of the increase in inventory was the result of foreign exchange. As Brian discussed, we are working closely with our global retailers to reallocate this product. In the U.S., retail inventories declined in the quarter. Internationally, retail inventories have also declined, but we have further work to do in Europe. We are making progress and are on plan to lower retail inventories to our targeted levels.

In closing, we are facing near-term disruption in the market, but we have confidence in our long-term prospects. Consumers are seeking out and purchasing Hasbro brands and we have a very strong line-up for the rest of the year. We are deliberate in how we approach the market, to ensure our global retailers have success with our brands this year and in future years. We are on solid financial footing and are taking the necessary steps to put Toys“R”Us behind us and return to profitable growth as soon as next year.

We will now open the call up for questions.