Second Quarter 2024
Financial Results Conference Call Management Remarks
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Kern Kapoor, Senior Vice President, Investor Relations

Thank you and good morning, everyone.

Joining me today are Chris Cocks, Hasbro's chief executive officer, and Gina Goetter, Hasbro's chief financial officer. Today, we will begin with Chris and Gina providing commentary on the Company's performance. Then we will take your questions.

Our earnings release and presentation slides for today's call are posted on our investor website.

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 press 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.

These factors include those 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 Chris Cocks, Chris.

Chris Cocks, Hasbro CEO

Thanks Kern, and good morning.

Q2 was another good quarter. We saw strength in gaming and digital licensing and landed where we expected within Consumer Products, while increasing operating margin and maintaining healthy inventory. It's nice to come into calls like this and not only deliver what we said but to start making it a habit.

Across Games, IP and Toys, Hasbro is emerging a more profitable, agile and operationally excellent company, one dedicated to delighting fans of all ages through the magic of play.

Our licensing and IP business continues to be a differentiator for us. In digital we're seeing mega-hits like *Monopoly Go!* demonstrate staying power, we have over 35 Entertainment projects in development, and our team continues to drive our IP within Consumer Products through partners spanning the globe and multiple categories.

And as we look at the business of play, it's clear that digital is here to stay and a bigger factor than ever in how successful toy and game companies will grow and strengthen their brands.

We're years ahead of our peers, having already spent hundreds of millions of dollars building out our own studio capacity and expanding our brands through digital partnerships. Games like *Baldur's Gate 3* show us what the future looks like.

And while we're still in the middle of the ballgame on our turnaround efforts in toys, we're seeing signs our innovation is working, particularly where we already have a big head start versus the competition. Many companies in the toy and games industry are waking up to the power of fans and the importance of quote-unquote "kidults." Hasbro has long appreciated this audience, driving over 60% of our revenue from consumers 13 and older, and we'll continue to lean in here as we think about innovation across our product portfolio.

Looking at the business with the first half of the year in the books, our team delivered, and we're raising our full year guidance as a result. Gina will share more details shortly and I'll first offer some business highlights across gaming, licensing, and toys.

We had another solid quarter from MAGIC: THE GATHERING on the back of this year's blockbuster set release *Modern Horizons 3*. Facing a high bar with last year's *Lord of the Rings*

Universes Beyond set, *Modern Horizons 3* has had a strong start, becoming the fastest selling set in MAGIC'S history.

While we expect a tougher comp in the back half for MAGIC following the strong first half and as we lap a greater number of releases last year, we're seeing good early interest in our first tentpole set, *Bloomburrow*, releasing next week.

And then in 2025 we anticipate a return to growth for MAGIC driven by two Universes Beyond sets for Final Fantasy and Marvel that fans are eagerly anticipating.

Within D&D, we're seeing solid pre-orders of the 2024 Core Rules book for the revised and expanded Fifth Edition. D&D also shows how we are increasing digitization across our portfolio. Digital revenue already accounts for over half of the mix due to the success of D&D Beyond.

Next week at GenCon, fans can expect to see more of our 3D roleplaying sandbox experience built on Unreal engine 5, bringing players' favorite franchises to life across PC, console, and mobile. We look forward to getting it in gamers' hands later this year.

D&D Beyond already represents our largest direct-to-consumer platform with 18 million registered users. Along with Pulse, our destination for exclusive collectibles across fan-favorite brands like G.I. JOE and Star Wars, we see an opportunity to unlock more value across our Hasbro Direct business.

Licensing was another standout in the quarter. Momentum in *Monopoly Go!* from our partners at Scopely continued in Q2, accelerating our revenue recognition beyond the minimum guarantees and driving healthy upside to both revenue and operating profit. Since launch, the game has grossed over $3 billion in revenue, making Hasbro the top licensor of video games over the past year according to Aldora. The team continues to have an active pipeline of licensing opportunities across PC, console, mobile and casino, leveraging our rich IP.

In Q2 we announced a new arcade-style game for POWER RANGERS with our partners at Digital Eclipse. And just this month, we kicked off a TRANSFORMERS *Overwatch 2* crossover.

As we continue to invest in our digital gaming efforts, both through partnerships and self-publishing through our own studios, I'm excited that John Hight, former SVP and GM of the Warcraft franchise for Blizzard Entertainment, is joining Hasbro as President of Wizards of the Coast. John is a lifelong MAGIC and D&D fan and embodies Hasbro's mission to bring people together through play.

Within Consumer Products licensing, we saw growth in the quarter helped by our new partnership with Kayou collectible trading cards, building on the resurgence of MY LITTLE PONY in China.

And LITTLEST PET SHOP'S international appeal continues to grow, ranked as the number two growth property in Playsets, Dolls, and Collectibles across the G10 according to Circana.

We also launched several partner-led, Hasbro-branded properties, including a new PEPPA PIG theme park in Germany, as well as The Gameroom and Planet PLAYSKOOL in New Jersey, combining for 60,000 square feet of games and STEM-based play experiences.

Finally, turning to toys. As a reminder we began the year expecting the first half for Consumer Products to look similar to last year's second half. Through Q2, we landed where we thought we would, and I'm encouraged by several early reads, notably Beyblade.

After a strong launch in Japan, we've begun rolling out Beyblade X globally. We've seen positive early demand with fans liking the streamlined brand assembly and new X-celerator Rail stadium that creates epic collisions.

And in this year of lighter entertainment content, Hasbro is well positioned with the biggest movie for toys coming to theaters this September, *Transformers One* with our partners at Paramount. We have strong retail alignment and healthy early demand for our fan SKUs to celebrate the brand's 40th anniversary.

You can expect renewed innovation in some of our core toy properties as we head into back-to-school.

PLAY-DOH has shown strength all year, and we've gained valuable insights from our digital marketing efforts in the Spring that we'll be applying to the Fall. We're expanding play styles with new launches like the first ride-on Pizza Delivery Scooter, and ageing up with PLAY-DOH Marvel action figures, in partnership with the Walt Disney Company.

This fall we'll also be ramping our latest N-Series for NERF, which features a proprietary NERF dart. Retailer support has been strong since last month's launch.

Our people and culture are critical to the successes I've highlighted during this call, and so before I wrap up, I want to also welcome back Holly Barbacovi, an HR powerhouse who is bringing her pragmatic approach to HR back to Hasbro as Chief People Officer.

To recap, it was a good quarter, with solid performance in profitability led by our strength in games and licensing. Toys came in as expected and we see a path to growth in Q4, driven by innovation and strong alignment with our retail partners.

We still have most of the year left to go, and we'll be watching back-to-school closely, but our team's work is starting to make a real difference, and we feel confident in taking our guidance up for the full year.

I'd like to now turn over the call to Gina to share more about our detailed results and updated outlook. Gina?

Gina Goetter, Hasbro CFO

Thanks, Chris, and good morning, everyone.

In Q2 we made further progress building a healthier foundation for Hasbro as we delivered better profits, moderated the pace of our revenue decline, and continued to uplevel our internal processes and systems. I'm pleased with our team's execution in the first half as we continue to drive operational rigor across the company.

Similar to Q1, we once again saw outperformance in digital licensing, led by a material step-up in contribution from Monopoly Go! as the game's momentum allowed us to exceed the minimum guarantee sooner than expected. This, along with healthy growth in consumer product licensing, growth in MAGIC and another strong quarter from our supply chain team, drove significant operating margin expansion.

And while we still have more than half of the year left from a revenue contribution standpoint, we're doing a lot of the right things and are confident from where we sit today to take up our full year guidance.

Our turnaround in Toys is well underway. Q2 declined similar to Q1 as we had anticipated, and while Q3 and the back-to-school selling season will be an important gauge, we're entering the second half with clean retail inventory and are seeing encouraging demand signals for our planned innovation.

And by putting the right underlying demand and supply planning processes and systems in place we've been able to bring aged inventory down to historic lows, while ensuring we have suitable inventory levels to support sell through for the holidays.

We've also improved our end-to-end planning capabilities to better align where we source inventory with customer demand. In the first half of this year, we've already had some major wins from our supply chain team, and with that I'd like to acknowledge Stephanie Beal who has been instrumental to this transformation and congratulate her on becoming our new Chief Supply Chain Officer.

Integrated business planning plays an important role as we transform Hasbro into a more profitable and operationally agile company. After the first couple of quarters of implementation, we're seeing greater information flow and faster decision making, which is starting to show up in our results.

And just like we're focused on digitization across play patterns, we're also enhancing our digital operations to ensure we're running as efficiently as possible and is why I'm excited to welcome Dan Shull as our new Chief Digital Information Officer. Dan brings a wealth of Fortune 500 experience and will steer our digital and IT strategy using cutting-edge technology to enhance collaboration, accelerate data analytics and modernize our infrastructure.

Now moving on to Q2 financial results.

Total Hasbro revenue was $995 million dollars, down 18% versus Q2 of last year. If you exclude the impact of the eOne divestiture, total Revenue was down 6%.

Growth of 20% in our Wizards of the Coast segment, led by MAGIC and licensed digital games, was more than offset by the 20% decline in Consumer Products driven by lower closeout volume, reduced entertainment slate and exited brands. The Entertainment segment declined 90% due to the sale of eOne Film and TV business; absent this impact, Entertainment revenue decreased 30%, driven by timing.

Adjusted operating profit was $249 million, for an adjusted operating margin of 25.0%, up nearly 14 points year on year. This substantial improvement was driven by favorable business mix, lower royalty expense, supply chain productivity savings, the eOne divestiture and about a 2.5 point benefit from lapping the D&D movie impairment.

Q2 Adjusted Net Earnings were $170 million, with diluted earnings per share of $1.22, up from $0.49 in the year ago period, driven by the items noted, as well as, reduced net interest expense and favorable timing within tax.

We returned $97 million to shareholders through the dividend and ended the period with $1.1B of cash and short-term investments following May's completion of a $500 million debt offering of notes. The proceeds from the issuance are expected to be used to repay our November 2024 bond maturity.

Year to date total Hasbro revenue was $1.75 billion dollars, down 21% versus the same period last year. If you exclude the impact of the eOne divestiture, total revenue was down 7% versus a year ago.

Growth of 15% in our Wizards of the Coast segment was more than offset by the 20% decline in Consumer Products and the 87% decline in the Entertainment segment due to the sale of eOne Film and TV business. Absent Film & TV, the Entertainment Segment is relatively flat.

Year to date adjusted operating profit was $397 million, for an adjusted operating margin of 22.7%, up over 14 points year over year, mostly driven by cost savings from our Operational Excellence program, as well as favorable business mix and the eOne divestiture.

In aggregate, we were able to deliver significant margin improvement despite the ongoing volume deleverage across our toys business.

Year to date Adjusted Net Earnings were $255 million, with diluted earnings per share of $1.83, driven by the improvement in operating profit, as well as favorability from a stock compensation adjustment and net interest expense reduction.

Operating Cash Flow was $365 million year-to-date, a $246 million improvement year over year driven by the profitability improvement, timing of digital licensing collections as well as a shift in timing of a transition tax payment to Q3.

Now let's look at our two major segments in more detail, starting with Wizards of the Coast and Digital Gaming.

Q2 revenue grew 20% year over year largely behind strength in digital licensing led by Monopoly Go! and to a lesser extent continued contribution from Baldur's Gate 3. Last quarter we discussed there could be the ability to book above the minimum guarantee sooner than originally planned.

Due to the game's momentum, we were able to earn approximately $35 million above the minimum guarantee of $5 million in the quarter. Segment revenue also benefitted from growth in MAGIC tabletop behind the successful release of Modern Horizons 3, as well as early shipments for next week's tentpole set Bloomburrow, both of which more than offset last year's Q2 contribution from Lord of the Rings.

Digital gaming revenue also saw a roughly $20 million non-cash benefit from a publishing contract with an international partner.

Operating margin for Wizards finished at 54.7%, up nearly 17 points versus last year, mainly driven by a richer digital mix, supply chain productivity gains, and lower royalty expenses as we lapped last year's MAGIC Lord of the Rings set.

Turning to Consumer Products:

Q2 revenue declined 20% year over year driven by reduced closeout volume, exited brands, and lapping a busier Entertainment slate including last year's *Transformers Rise of the Beasts* Consumer Product licensing was a bright spot, driven by our partnership with MY LITTLE PONY and Kayou trading cards.

FURBY and the continued momentum in FURBLETS, G.I. JOE, and PLAY-DOH also performed well within Toys, while NERF continued to see softness ahead of the back-half innovation launch.

Adjusted operating margin for Consumer Products came in roughly breakeven, down about 3.5 points compared to last year. Cost savings and the benefit from lower unprofitable closeouts were offset by product mix and volume deleverage.

As anticipated, there was also approximately $10 million of operating income attributed to the segment as we reallocated cost savings captured within the Corporate Segment back to CP.

On a year-to-date basis, despite a revenue decline of 20%, segment operating margin declined by only 3 points year on year, as we were able to significantly mitigate the deleverage impact by reducing our cost footprint across supply chain and within operating expenses.

Now turning to our updated guidance for 2024. Given the strong performance in the first half, we are raising our guidance for the full year.

We now expect:

Total Wizards Revenue to be down 1 to 3 percent, up from our prior guidance of down 3 to 5 percent driven by the first half outperformance in digital licensing.

For the full year, Monopoly Go! will generate roughly $105 million in revenue. This outlook assumes a modest monthly gross revenue decay rate for the game and consistent marketing support.

For Baldur's Gate 3, we now anticipate roughly $30 million for the full year, with the bulk of that revenue having been recorded in the first half.

With all these puts & takes, digital licensing will be down in Q3 as we lap the launch of Baldur's Gate 3, and we anticipate Q4 to be relatively flat versus last year.

For MAGIC we expect some contraction in the second half due to the timing of set releases. While Modern Horizons 3 successfully lapped the initial release of Lord of the Rings, it will not have a comparison launch for last year's holiday bundle.

We now forecast Wizards operating margin to be approximately 42%, up from our prior guidance of 38 to 40%, driven by the increased mix of digital licensing revenue.

For Consumer Products, keeping in mind that a big part of the year is ahead of us, we expect revenue will be down 7 to 11 percent, up slightly from our prior guidance range of down 7 to 12%.

This narrowing is driven by encouraging early demand signals and retailer support for our back half product innovation, specifically Beyblade, PLAY-DOH, and TRANSFORMERS ahead of the major animated film *Transformers One* in September.

We are forecasting a low single digit decline in Q3 before flipping to growth in Q4, with the impact from our divested brands continuing to be a headwind.

We maintain our adjusted operating margin guidance of 4 to 6 percent for Consumer Products. Margins in Q3 will be relatively flat versus last year followed by significant expansion in Q4 as we lap the impact of the inventory clean-up.

For Entertainment, adjusting for the impact of the eOne divestiture, we continue to expect revenue to be down approximately $15 million versus last year and adjusted operating margin of roughly 60%.

We remain on track towards our target of $750M of gross cost savings by 2025 and continue to expect $200 to $250M of net cost savings in 2024.

Through the first half of the year, we have delivered $150M of gross cost savings and $90M of net savings.

With the increased revenue outlook and greater profitability in Wizards, we now expect total Hasbro adjusted EBITDA in the range of $975 million to $1.025 billion, up from our prior guidance of $925 million to $1 billion.

Given the improvement in our cash flow, we now expect 2024 ending cash to be at roughly similar levels versus 2023.

And from a capital allocation standpoint, our priorities remain to first, invest behind the core business. Second is to return cash to shareholders via the dividend and third to continue progressing towards our long-term leverage targets and pay down debt.

And with that, we can open the line for questions.