Hasbro Fourth Quarter & Full Year 2013
Financial Results Conference Call Management Remarks
February 10, 2014

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Our fourth quarter and full year 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 included in today's call. Please note that 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 Chief Financial Officer, will review our financial results and discuss important factors impacting our performance. Following their prepared remarks, Brian and Deb will be happy to take 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 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, plans and strategies, costs and cost savings initiative, financial goals and expectations for our future financial performance.

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. 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.

I would now like to introduce Brian Goldner.

Brian Goldner, Hasbro President and CEO:

Good morning everyone. Thank you for joining us today.

2013 represented an important inflection point for our company as we heightened our focus and execution around our most important global initiatives, our Franchise Brands and Partner Brands, across the Brand Blueprint.

- Our Franchise brands grew double digits globally and grew in both the U.S. & Canada and International segments;
- Our Girls business reached a record level, topping $1 billion in revenues for the first time;
- Our global entertainment strategy delivered more than $400 million in television backed merchandise revenues;
- We introduced several new brand initiatives across product categories and demographics that gained strong consumer adoption globally;
- We furthered partnerships including extending our relationship with Disney for the Marvel and Lucasfilm franchises;
- We continued to post double-digit growth in our emerging markets; and
- We continued to invest in our business. Including investments in our digital capabilities in both digital gaming in MAGIC: THE GATHERING and in Backflip Studios, as well as in consumer engagement.

However, as we have previously discussed, 2013 presented difficult comparisons within our Boys category given the entertainment calendar in 2013 versus 2012 and continued challenges in developed economies such as the U.S. and Australia. We also have been actively implementing our cost savings initiative, which from a strategic perspective focuses us on fewer brand initiatives while we tactically streamline the organization, exit unprofitable brands, license out select brands and build Hasbro's global team orientation.

It is a time of global transformation and challenge for Hasbro, but we are a stronger company today and in a position of financial strength to continue driving our brand innovation as we enter 2014.

For 2013 we posted revenues of $4.08 billion and, excluding charges, an operating profit margin of 14.6% - both essentially flat with 2012. Net earnings for the company excluding charges and a tax adjustment were also essentially flat with 2012 and EPS increased slightly. We incurred a number of restructuring and other charges mostly associated with the transformation I referred to earlier and Deb will speak to these expenses in more detail shortly. As a result, we are better positioned today to align our business towards delivering long-term profitable growth.

Importantly, we are seeing positive momentum in the areas of our heightened focus, our Franchise Brands. In 2013, Franchise Brands grew 15%, increasing double digits in the U.S & Canada and internationally. Overall, six of the seven Franchise Brands delivered revenue growth in the year- specifically, MAGIC: THE GATHERING, MONOPOLY, MY LITTLE PONY, NERF, PLAY-DOH and TRANSFORMERS increased versus 2012. In total, our Franchise Brands represented 44 percent of 2013 revenues, up from 38 percent in 2008.

MY LITTLE PONY reached a record revenue level; TRANSFORMERS grew in a non-movie year supported by our successful global television strategy; NERF revenues grew in the Boys category as well as through the tremendous launch of NERF REBELLE within the Girls category; and MAGIC: THE GATHERING revenues increased again supported by our further investments.

The Emerging markets, another area of high priority for Hasbro, grew 25% in 2013 to reach $575 million in revenues and represent 14% of total company revenues. The Emerging markets growth contributed to increased revenue in all regions across the International segment with strong performances from many countries including China, Brazil, Poland, and Russia.

Profitability in these markets also increased, growing more than 40% to 10.1% of emerging markets revenues versus 8.9% of revenues in 2012. This improvement is the result of strong top line growth driven by the execution of our brand blueprint, thereby enabling us to begin to leverage our investments in these higher growth markets.

While operating profit did increase significantly within the emerging markets, operating profit margin still remains below overall company averages. As the emerging markets represented a larger percentage of our overall business in 2013 this negatively impacted our overall profit margin for the year, despite the growth in operating profit margin within the International segment. Over time, we continue to target double-digit revenue growth in the emerging markets and operating profit margin improvement approaching levels consistent with our company average, which should contribute to expanded profit margins over time.

The Girls, Games and Preschool categories all grew revenues in 2013. Girls led all categories with 26% growth in the year, and reached a billion in revenues for the first time in Hasbro's history. Considering the Girls category as defined today was $300 million in revenues ten years ago, this milestone is extremely significant. We have built a Girls portfolio of strong brands with global appeal and we are seeing the results of new innovation and insights with six consecutive quarters of growth.

Behind a successful global entertainment, licensing and retail strategy which re-launched the brand in 2010, MY LITTLE PONY has grown to represent approximately $650 million at retail across the blueprint. In

2013, we grew both the core MY LITTLE PONY products as well as successfully launched MY LITTLE PONY EQUESTRIA GIRLS. According to NPD, for the week of Christmas, Dec 22nd to Dec 28th, Hasbro's EQUESTRIA GIRLS was the #1 selling Fashion Themed Doll in the United States, taking the top spot from veteran players in this toy category.

The combination of strong consumer insights, global digital content and engaging storytelling, innovative products and comprehensive retail execution, enabled MY LITTLE PONY to post 3 years of revenue growth, expand its geographic and demographic reach and to be well positioned entering 2014.

Also contributing to the strong Girls performance in 2013, the introduction of NERF REBELLE offered an entirely new play pattern for Girls around the world. According to NPD, across five markets, NERF REBELLE was the #1 new brand in the Sports Activities & Game category for 2013. Importantly, our core NERF business grew overall and in both the U.S. & Canada segment as well as internationally excluding NERF REBELLE.

In its second year since re-launch, FURBY continued to contribute to the Girls category year-over-year gains. FURBY launched in non-English speaking markets in 2013, and had a very strong performance internationally with more than 70% of revenues outside the U.S. &

Canada. In its second year, FURBY was the #1 toy in the top 5 European markets according to NPD.

Leveraging the success of our global television content, LITTLEST PET SHOP, our seventh Franchise Brand, is poised for re-launch in 2014 with new product and an integrated entertainment, social media and digital campaign. We hope you can join us this Friday in NY at our annual Toy Fair investor event to hear more about our plans.

The Games category also posted another year of growth, marking two consecutive years of increases. In 2011, we made the decision to dramatically change our approach to gaming, and to invest more heavily in fewer initiatives. We are now seeing the positive results of this decision. We have the capability and are committed to providing the growing population of global game players the opportunity to play our tremendous Hasbro game brands and new brands across every gaming format, anytime, and anywhere.

MAGIC: THE GATHERING is the premiere trading card game offering integrated digital and analog play and in 2013 again posted strong growth, contributing to the overall category performance. We continue to invest in MAGIC: THE GATHERING to grow this brand globally from a digital and analog perspective.

Digital gaming continues to expand across consumer groups and our digital gaming presence is extensive with industry leading partnerships across gaming platforms. In 2013 we added new resources and talent to Hasbro with the addition of Backflip Studios to our gaming portfolio. In 2014, we will have a full year of contribution from Backflip. The Backflip team is focused in three areas: Driving their already successful brands like Dragonvale; launching new game brands like Dwarven Den and several others; and launching games based on Hasbro brands that connect across digital and analog play. You will hear more about these efforts at our upcoming investor event at Toy Fair on Friday.

At the core of our games business, are the Hasbro games brands and new initiatives that constitute the majority of the category. These brand initiatives had a number of successes including growth in MONOPOLY and several of our Games Mega brands such as ELEFUN & FRIENDS, JENGA and TWISTER as well as the launch of TELEPODS featuring Angry Birds and the introduction of our value gaming line. Excluding both Games Franchise Brands, MAGIC: THE GATHERING and MONOPOLY, our Games category grew in 2013 - reflecting the strength of innovation within the category and the positive results of the investments we have made in Hasbro Gaming.

Additionally, our Preschool category grew revenues in 2013 with growth in our Franchise Brands PLAY-DOH and TRANSFORMERS RESCUE BOTS as well as growth in SESAME STREET, highlighted by BIG HUGS ELMO. It's worth noting that 2013 was the largest revenue year for PLAY-DOH in the brand's history.

As I mentioned earlier, the Boys category had difficult comparisons with 2012 and did not grow in 2013. Despite growth in NERF in the Boys category and in TRANSFORMERS during a non-movie year, the declines in entertainment-backed properties BEYBLADE and MARVEL were not offset by growth in our two Franchise Brands.

Within the Boys category, we continue to develop innovative multi-tiered immersive experiences while also leveraging film and television entertainment.

2014 is the first of a robust multi-year entertainment slate for our Boys brands. The fourth feature film in the TRANSFORMERS franchise, *Transformers: Age of Extinction,* is scheduled for release and will feature all new characters and storylines. Marvel Studios is releasing two new feature films, including *Captain America: The Winter Soldier* and an all-new franchise in the making, *Guardians of the Galaxy*. Sony Pictures is releasing *The Amazing Spiderman 2*. Finally, Lucasfilm is unveiling all new *Star Wars Rebels* television programming late in 2014.

Therefore, in addition to the momentum and innovation we are creating in our Franchise Brands, 2014 is just the first year of an unprecedented era of new boys' entertainment which builds over the next several year period with major theatrical releases scheduled for 2015 and beyond.

In addition to major theatrical films, our global television strategy is delivering content to consumers around the world. In 2013, we achieved more than $400 million of television-backed merchandise revenues fueled by the successful execution of our branded content strategy globally. Our key series are seen on average in 180 territories and carried by fully-distributed cable networks as well as major broadcast networks and digital platforms in every region. Hasbro shows continue to be among the highest rated shows in the majority of markets where they air. This branded content is helping drive our emerging markets success, where TRANSFORMERS and MY LITTLE PONY are consistently top rated programs in these markets.

In the U.S., the Hub Network had its best year ever in total day ratings. On January 13th, the Hub Network refreshed its on-air look and unveiled a new marketing strategy based on: “Making family fun.” Since its launch four years ago, the Hub Network has been the most co-viewed children’s network in percentage terms versus all kids’ cable networks. The Hub Network has a plan to achieve pre-tax profitability in 2014.

In closing, 2013 was a challenging year in many ways. According to NPD, the toy industry declined slightly in several developed markets, including the U.S., UK and Australia. Shoppers came later than ever and there were fewer shopping days in the critical holiday season. Our entertainment comparisons in Boys were difficult and we are working aggressively to eliminate activities and areas of our business which do not contribute to our long-term positive top and bottom line.

Despite these factors, we had many successes executing our brand blueprint globally. This includes Hasbro successfully launching new IP and brand innovations, enhancing our global and digital consumer engagement, delivering engaging global content and focusing on profitably growing over the long run. As a result, we are well positioned to build on these efforts this year and beyond.

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

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

In 2013 we took important steps both strategically and operationally toward executing our brand blueprint globally while heightening our focus on our Franchise Brands.

As Brian discussed, this resulted in growth for six of our seven Franchise Brands, continued double-digit revenue and profit increases in the emerging markets, and a solid financial position for Hasbro upon which we will build in 2014 and beyond to deliver long-term profitable growth in our business.

- In 2013, our revenues were flat with 2012 as growth in the Girls, Games and Preschool categories offset the $339 million dollar decrease in our Boys category, which came primarily from declines following a strong 2012 entertainment year.
- Operating Profit, operating profit margin, net earnings and earnings per share also remained essentially flat with 2012, excluding charges and the favorable tax adjustment in the year.
- Our balance sheet is strong and we ended the year with $682.4 million of cash and we are strategically investing in the long-term growth of Hasbro while returning cash to our shareholders both in dividends and share repurchases.

Our strategy also meant undertaking a number of operational and tactical decisions which resulted in incremental expenses and charges in the short term. These steps are enabling us to better execute our strategy, lower our underlying cost base and focus on our more profitable initiatives over the long-term.

In summary, in 2013:

- Restructuring expenses were in the anticipated range which we previously communicated. For the year they totaled $36.7 million pre-tax and related pension charges were also as anticipated at $7.0 million pre-tax for the year.
- In the fourth quarter, we incurred charges associated with the decision to exit certain non-strategic brands which we are no longer focusing on. Many of these were primarily tied to what we have referred to in the past as the "tail of the games business." This relates to games brands and initiatives we are no longer investing in and frequently are below our profit targets.
- Additionally, we amended our agreement with Zynga to reflect their changing direction and Hasbro's increased focus on our largest Games brands. Taken together, these actions resulted in an incremental charge of $40.6 million. Approximately $30 million of these charges were non-cash. While this has resulted in higher expense in the fourth

quarter 2013, it will help improve our profitability and lower expenses in future periods.

- Other costs incurred in 2013 include $61.1 million associated with the settlement of a previously announced adverse arbitration award.
- Finally, partially offsetting these charges, we had a favorable tax adjustment in 2013 of $23.6 million.

In my discussion of our business, I will exclude these charges and tax adjustment, as well as the $47.2 million in restructuring charges we incurred in 2012, as they do not speak to the underlying performance of Hasbro.

Looking at our segments,

In the U.S. and Canada segment, full-year revenues were down 5% on a decline in the Boys and Preschool categories, partially offset by growth in the Girls and Games categories.

Operating profit declined 2%, while operating profit margin increased to 15.6% versus 15.2% last year, as improvements from product mix and lower advertising were partially offset by higher expense levels, primarily due to investments made in our MAGIC: THE GATHERING brand.

In the International segment, full-year revenues grew 5% with growth in all regions. Europe increased 3%, Asia Pacific 4% and Latin America

12%. Underlying these strong regional performances was 25% growth in our emerging markets. Girls, Games and Preschool category revenues all increased in the International segment in 2013 and more than offset the decline in the Boys category.

Operating profit for the segment grew faster than revenues, increasing 8% resulting in a higher operating profit margin of 12.6% of revenues versus 12.2% in 2012 as we gained further operating cost leverage.

As Brian spoke to, emerging markets profitability grew but remains below overall company averages. As we continue to leverage our investments we are targeting further improvement in the margin of these higher growth territories.

Finally, Entertainment and Licensing revenues also grew 5% in 2013 on higher digital gaming revenues, including the six month contribution of Backflip Studios, and growth in lifestyle licensing. Overall entertainment revenues were down in the year primarily due to lower television streaming revenues in 2013 versus 2012.

Operating profit declined $6.5 million primarily due to the impact of our acquisition of Backflip Studios.

Overall, Backflip's contribution to Hasbro in 2013 was modestly dilutive versus our expectation of neutral. However, Backflip's contribution was accretive prior to amortization and, as Brian said, the team, their brands and their talent are important new assets to our business which we will leverage for the full year 2014 and beyond.

Looking at our overall expenses, we continue to make progress and we remain on track toward our goal of achieving $100 million in cost savings by 2015 and our underlying costs have declined.

At the same time, we have seen increases in various expense items reflecting the larger geographical base of our business and ongoing investments into our business to both grow revenue and decrease ongoing costs.

For the full year, cost of sales as a percentage of revenue declined slightly and continued to benefit from improved inventory management and product mix. These gains were partially offset by higher promotional activity in the fourth quarter 2013 versus 2012.

Royalty expense was down in dollars and as a percentage of sales in the year due to lower revenues from entertainment-based properties. As a reminder, as Brian spoke to, 2014 begins a period of strong entertainment which builds over the next several years, from both Hasbro and our partners.

Product development was higher in the year due to the addition of Backflip Studios, incremental investments in MAGIC: THE GATHERING and film development write-offs incurred during the year.

Advertising declined in absolute dollars but remained close to the low end of the 10 to 11% of revenues range that we typically target.

Underlying intangible amortization increased in 2013 due to an incremental $8.1 million of expense associated with Backflip Studios.

As we have seen the continued benefits of focusing the company's efforts on our Franchise Brands and our larger mega games brands such as TWISTER, JENGA and ELEFUN & FRIENDS, we have further reduced our revenue expectations on many of the Games that are smaller in nature. Under accounting rules, these reduced expectations on revenue resulted in an intangible impairment.

Therefore, on an as reported basis, including charges, intangible amortization was up significantly as $19.7 million of the product-related expense we incurred resulted from the write-off of intangible assets related to these non-core brands.

SD&A increased in 2013 to 20.6% of revenue compared to 19.9% of revenue in 2012. Higher compensation-related costs, as well as investments we have made in certain brands, the acquisition of Backflip Studios, higher depreciation, and costs related to our global implementation of SAP, more than offset cost reductions which were primarily due to lower headcount.

Turning to our results below operating profit for the year:

Total non-operating expense increased versus 2012. Our 50% share in the Hub Network improved from a loss of $6.0 million in 2012 to a loss of $2.4 million in 2013. For 2014, the Hub Network has a plan to achieve pre-tax profitability.

This improvement was offset by a number of factors including lower investment earnings and higher foreign exchange losses.

The 2013 underlying tax rate declined to 25.8% versus 27.0% in 2012. This improvement was the result of a higher mix of profits in lower tax rate geographies. Looking forward to 2014 we would expect our tax rate to be in the range of 26 – 27%.

For the year, average diluted shares were 131.8 million shares compared to 131.9 million in 2012. Diluted earnings per share, absent charges and the favorable tax adjustment, were $2.83 in 2013 versus $2.81 in 2012.

Hasbro also continues to generate strong cash flow. Operating cash flow was $401 million in the year. This includes $125 million in long-term royalty advances paid to Disney over the twelve month period.

At year end, cash totaled $682.4 million. Approximately 28% of this balance was held in the U.S. Additionally, during the third quarter, we paid $112 million for our investment in Backflip Studios.

We remain committed to strategically investing in our business and returning excess cash to our shareholders through our dividend and buyback programs. Today, we announced an increase in our quarterly dividend of $0.03 per share, or 8 percent, to $0.43 per share. This is the 10th increase in 11 years and fifth consecutive year with an increase in our dividend. In fact, over the last decade our quarterly dividend has grown from $0.06 per share to now, $0.43 per share.

In August 2013, the Board authorized the Company to repurchase an additional $500 million of our common stock and $524.8 million remained available at year-end in current share repurchase authorizations. Given our current U.S. cash levels, we are planning for an accelerated share repurchase program in 2014 compared to the $102.5 million we spent in 2013.

Receivables at year-end increased 6% versus 2012. DSOs were 77 days versus 72 days in 2012 and reflect the strong revenue growth in emerging markets that have longer terms than developed economies.

Inventories increased $32.7 million versus last year in support of our growing emerging markets business. Our inventory at U.S. retail was down double-digits at year-end, international retail inventory is healthy and overall retail and Hasbro-owned inventory is of good quality.

In closing, 2013's results reflect the positive momentum behind strategic investments in our Franchise Brands, emerging markets and the long-term profitable growth of Hasbro. Over the coming years, we will continue to focus on these important initiatives, while leveraging the robust entertainment slate of major motion pictures. Our strong financial position allows us to continue investing in our business and return cash to our shareholders both in terms of our dividend and our share repurchase.

Brian and I are now happy to take your questions.