Hasbro First Quarter 2015
Financial Results Conference Call Management Remarks
April 20, 2015

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me this morning are Brian Goldner, Hasbro's 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 first quarter 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 of net earnings and EPS will exclude, from last year's first quarter results, a favorable tax adjustment of $13.5 million or $0.10 per share, as it does not speak to the underlying performance of Hasbro. We have included a reconciliation to reported amounts in the earnings release and presentation 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. These forward-looking statements may include comments concerning our product and entertainment plans, anticipated product performance, business opportunities, plans and strategies, the potential impact of foreign exchange translation, costs, our 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:

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

The momentum with which we exited 2014 has carried forward into 2015, delivering a strong first quarter and a good start to the year. First quarter revenues grew 5%, operating profit increased 25% and our adjusted net earnings were up 43%. Our focus on Hasbro Franchise Brands continued to drive our performance, as each of these seven brands increased year-over-year and delivered, in total, 20% revenue growth.

We also drove strong underlying demand across geographic regions. The U.S. and Canada segment grew revenues 2% and, absent the negative $61.0 million impact of foreign exchange, the International segment grew 20% including revenue gains in each geographic region.

Additionally, as reported, emerging market revenues increased 3%, but absent the negative impact of foreign exchange they increased approximately 25%.

Our focus on “Creating the World’s Best Play Experiences” is building strong demand for Hasbro brands and our partner brands around the world. Point of sale was positive in every major market we track, including the U.S., Canada, UK, Germany and Australia.

For the first quarter, Boys category revenues grew 10%, Games increased 7% and Preschool gained 22%.

The Girls category revenues declined 16%. As we outlined previously, this decline was primarily the result of the challenging comparisons in FURBY, which will remain difficult throughout the year.

Each of our Franchise Brands grew, as did several entertainment-led brands including Marvel in support of the first quarter on shelf date for *The Avengers*: *Age of Ultron* product, and initial shipments of JURASSIC WORLD.

While we are pleased with these favorable trends and strong momentum in our business, there are several additional factors unique to the first quarter. These elements, combined with the fact that the first quarter is our smallest revenue quarter of the year, had a very positive impact on our results.

At 8% of our total quarterly revenues, our Entertainment and Licensing segment represented a greater than normal percentage of our total revenue mix.

First quarter licensing revenue is, in part, the payment of royalties based on fourth quarter holiday sales. Also within the Entertainment and Licensing segment, were higher programming revenues associated with a multi-year digital streaming deal for Hasbro Studios programs. This revenue is recorded when we deliver the programming and reflects several seasons of shows. You may recall, in 2012, we discussed with you a similar benefit.

The growth in our Entertainment and Licensing segment was combined with a strong quarter for Franchise Brands, including MAGIC: THE GATHERING, leading to a very favorable revenue mix in respect to profitability.

MAGIC: THE GATHERING continues to engage its fans around the world. In the first quarter it benefited from the earlier release date of the third release in the Khans block versus the third release of the Theros block which occurred in the second quarter of last year.

Additionally, favorable foreign exchange product cost hedges aided our profitability for the quarter.

Each of these factors helped offset the negative impact of foreign exchange to our earnings, which will continue to be a challenge throughout 2015.

As we look ahead to the remainder of the year, there are several additional factors to consider.

First, the benefit from Easter was almost entirely in the first quarter of this year, whereas in 2014 it was two weeks later in the month of April.

Additionally, 2014 had two very significant motion pictures in the summer months, *Transformers: Age of Extinction* and *The Amazing Spider-Man 2*. Both of these films benefited from shipments in the first half of last year. In 2015 there is a tremendous film slate we are supporting, headlined by *The Avengers: Age of Ultron* in theatres on May 1st and *Star Wars: The Force Awakens* on December 18th. These release dates are spread across a greater period of time versus last year's concentrated timing of summer releases. There are also several other notable films this year, including *Jurassic World* on June 12th, *Ant-Man* on July 17th and our own *Jem and the Holograms* on October 23rd.

Our first quarter performance reinforces that our strategy and approach to brand building is working. For the full-year, our teams are delivering innovative brands and executing against a robust entertainment slate, while facing a difficult foreign exchange environment.

As we continue to invest around our brand blueprint, beginning with consumer insights to develop the right innovation and storytelling to engage the consumer across all forms and formats, the Hasbro team is delivering truly differentiated and compelling play experiences for consumers around the world.

I would like to now turn over the call to Deb. Deb.

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

Our first quarter was a good quarter, highlighted by the strength of our business across brands and geographies. The momentum in our Franchise Brands, coupled with the growth in our Entertainment and Licensing segment, delivered both revenue and profitability improvements for the quarter. While foreign exchange had a significant impact on revenues, the favorable revenue mix and our efforts to hedge our exposure limited its impact on profitability.

This momentum in our business and our improved profitability enabled us to generate $315 million of operating cash flow. Our balance sheet is healthy and we ended the quarter with $1.1 billion in cash. We continued to invest in our business to strengthen our brands and improve the productivity of our global teams. We also remained committed to returning excess cash to our shareholders. In the first quarter we returned approximately $79 million through our dividend and buyback programs.

Looking at our segments for the first quarter,

Revenues in the U.S. and Canada segment increased 2%. Growth in the Boys, Games and Preschool categories more than offset a decline in the Girls category. This growth was driven by higher revenues in our Franchise Brands, as well as growth in Marvel in support of the *The Avengers: Age of Ultron* and initial shipments of *Jurassic World*.

Point of sale is off to a positive start in 2015 including strong growth in Franchise Brands. Our retail inventory continues to be of both good quality and good levels.

Operating profit in the U.S. and Canada segment increased 16%, reflecting the favorable impact of higher Franchise Brand revenues.

In the International segment, revenues were flat with last year. Europe was down 6% but was offset by 8% growth in Latin America and 17% in Asia Pacific. Emerging Market revenues increased 3%.

The Boys and Preschool category revenues grew but were offset by a decline in the Games and Girls categories. As in the U.S. and Canada segment, strong growth in Hasbro Franchise Brands was further supported by growth in Marvel products.

Absent the impact of foreign exchange, International segment revenues grew 20% and emerging markets grew approximately 25%. Eighty percent, or $50 million, of the foreign exchange impact to revenues was in Europe. Absent FX, Europe grew 19% and Latin America and Asia Pacific each grew 23%.

Operating profit in the International segment declined $511,000, reflecting the negative impact of foreign exchange. Absent this impact, operating profit increased to $5.5 million compared with $2.4 million a year ago.

Finally, revenues grew 74% in the Entertainment and Licensing segment. This strong performance was the result of growth in lifestyle licensing revenues for Hasbro Franchise Brands, notably MY LITTLE PONY and TRANSFORMERS, as well as the contribution of a multi-year digital streaming deal for Hasbro Studios programming.

These increased revenues drove a $10.4 million increase in the Entertainment and Licensing segment operating profit.

Looking at Hasbro overall, in February I shared with you our outlook for costs and expenses for the full-year 2015, using our underlying historical results as a basis for comparison. We have included the slide from Toy Fair in the presentation accompanying today's call which is available on our website.

Keeping in mind that the first quarter is our smallest revenue quarter of the year, and small changes have a bigger impact in the quarter than they would on an annual basis, our first quarter results keep us on track to achieve the previously stated targets.

Overall in the first quarter, strong revenue growth in higher margin brands and segments, namely Franchise Brands including MAGIC: THE GATHERING and the Entertainment and Licensing Segment, more than offset the negative impact of foreign currency translation.

This favorable mix resulted in cost of sales as a percentage of revenue decreasing to 34.7% versus 38.1% in 2014. For the full year, we continue to target cost of sales as a percentage of revenue approximately in line with 2014's level of 39.7%.

With the growth in entertainment-backed revenues, in particular Marvel and Jurassic World, royalty expense increased to 8.3% of revenues. Given the lower level of revenues in the first quarter, this percentage is higher than our full-year outlook for royalties, which, given the strong entertainment slate in 2015, remains in line with last year's rate of 7.2%.

Product development increased in the quarter to 7.3% of revenues as we are investing in the development of the Disney Princess and Frozen properties, which will come to market in 2016, as well as incremental investments in our brands, including MAGIC: THE GATHERING. Our full year expectation is that product development will be in the range of 5.0 to 5.5% of revenues.

Advertising in the first quarter remained at similar dollar levels year-over-year but declined slightly as a percent of revenue to 9.5%. For the full year, we anticipate advertising at approximately 10% of revenues, which is the low end of our traditional advertising range and reflects our continued investment in brand building coupled with the efficiencies we are gaining from our global, and increasingly digital, advertising model.

Intangible amortization declined in the quarter and is anticipated to be approximately $44 million dollars for 2015.

Program production cost amortization increased, reflecting the higher revenues and associated amortization from the multi-year digital streaming deal for Hasbro Studios programming. Our full-year expectation is this expense as a percentage of revenues remains in line with recent years.

SD&A increased 7% in the quarter to 29.3% of revenues. Higher equity compensation and depreciation associated with systems contributed to the increase as did continued investments in our business including MAGIC: THE GATHERING. These increases were partially offset by favorable foreign exchange. In total, for the year, we believe these trends will continue and that SD&A will be higher versus 2014's level of 20.8%.

Turning to results below operating profit:

Other income for the quarter was $4.7 million compared to $5.0 million in 2014. Profitability improvements in our 40% share of the operating income from the Discovery Family Channel were partially offset by higher losses from foreign exchange.

The first quarter underlying tax rate was 27.0% versus 26.1% in 2014. We expect our full-year underlying tax rate to be in the range of 26.5 to 27.5% reflecting continued higher anticipated earnings in the U.S.

Diluted earnings per share for the quarter were $0.21 versus the adjusted earnings per share of $0.14 in 2014.

We returned $78.7 million to shareholders in the quarter - $53.5 million in dividends and $25.2 million in share repurchases. Our next quarterly dividend is our first at the new rate of $0.46 per share and is payable on May 15th to shareholders of record on May 1st. Additionally, at quarter end, $539 million dollars remained available in our current share repurchase authorizations.

Receivables at quarter-end were up 2% and DSOs were 71 days, down 2 days versus last year. Absent the impact of foreign exchange, receivables increased approximately 18% versus the 14% growth in revenues.

Inventory declined $50.2 million compared to last year and is of good quality. Adjusting for a negative foreign exchange impact, inventory increased 1%. Excluding FX, inventory increased in the International segment which was mostly offset by lower inventory in the U.S. and Canada segment.

In closing, the first quarter was a good start to 2015 and keeps us on track with our full-year expectations. Foreign exchange will continue to be a challenge throughout the year, but we are taking steps to minimize some of this impact through pricing and product cost hedges. Over the next several quarters, we are well positioned to capitalize on the positive momentum in our brands, the innovation we are delivering and a robust entertainment slate.

Brian and I are now happy to take your questions.