Hasbro Second Quarter 2015
Financial Results Conference Call Management Remarks
July 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 second 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 second quarter results, an unfavorable tax adjustment of $13.8 million or $0.10 per share, as it does not speak to the underlying performance of Hasbro. A reconciliation to reported amounts is included 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 Chairman, President and CEO:

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

The positive momentum in our business continued in the second quarter and throughout the first half of 2015, with strong underlying demand in our Franchise and Partner Brands across geographies. While foreign exchange clearly had a negative impact on our reported results, absent foreign exchange Hasbro's second quarter revenues increased 5% and the International segment grew 9%.

We spoke with you in April about several challenges we faced in the second quarter, including the anniversary of *TRANSFORMERS: AGE OF EXTINCTION* movie shipments, the shift of the release schedule for MAGIC: THE GATHERING and the timing of Easter. Despite these negative influences, our revenues grew absent FX, and it is clear there is momentum in our brands around the world.

Although Hasbro Franchise Brands declined in the quarter, they increased 3% in the first six months of the year and 11% on a constant currency basis for the six month period. Partner Brands MARVEL, JURASSIC WORLD and STAR WARS all contributed to growth in the quarter and the first half of the year.

Importantly, consumer takeaway, as measured by point of sale trends, was positive in nearly every major market we track in the second quarter, and was positive in all of these markets year to date with several countries posting double digit gains.

On a recent trip to Latin America, I was reminded of how far we have come in just a few years in this region. Today, we are becoming a leading player in the Latin American market. The team is implementing our Brand Blueprint with tremendous retail execution supported by engaging storytelling. Even though the economic and currency environment is a challenge, it is clear in everything we do that our teams in Latin America are “Creating the World’s Best Play Experiences.”

Looking at overall Hasbro second quarter performance, Hasbro Franchise Brands were led by growth in PLAY-DOH, NERF, MONOPOLY and LITTLEST PET SHOP.

The MY LITTLE PONY brand continues to be as popular as ever and point of sale increased meaningfully in nearly every country we track. On an as reported basis, MY LITTLE PONY revenues declined in the quarter and the first half of the year, but grew in both periods absent the impact of foreign exchange. Our new fall theme, Cutie Mark Magic, is off to a great start at retail, and our all new *MY LITTLE PONY EQUESTRIA GIRLS FRIENDSHIP GAMES* movie and associated product will be out in September.

As we discussed in April, MAGIC: THE GATHERING faced a difficult comparison. Last year's major set release for the first half of the year occurred in the second quarter and this year it was in the first quarter. MAGIC: THE GATHERING revenues increased for the first half of 2015.

Finally, TRANSFORMERS revenues declined as expected following a movie year. *TRANSFORMERS: ROBOTS IN DISGUISE* television programming and product are both performing well. TRANSFORMERS point of sale was positive in all major markets we track through the first six months of this year and up in many markets for the second quarter as we began to anniversary the mid-May on shelf date for movie product.

For our partner brands, compelling storytelling is clearly driving consumer engagement and interest.

JURASSIC WORLD has been a tremendous success at the box office, and, coupled with the strength of our line and strong global retail execution, is performing better than expected.

Hasbro's portfolio of MARVEL lines also had a strong second quarter as retailers focused their merchandising activities around the global theatrical launch of MARVEL'S *AVENGERS: AGE OF ULTRON*. In addition, products supporting MARVEL'S ANT MAN are now hitting store shelves, in time for the July 17th release.

We also recently expanded our relationship with Disney Consumer Products with the announcement of PLAYMATION, a groundbreaking system of connected toys that use smart technology to inspire kids to run around and use their imaginations as they become the hero or heroine of stories from across the Walt Disney Company. Our teams collaborated with Disney Consumer Products on the development of PLAYMATION, and we are manufacturing and distributing the systems. PLAYMATION MARVEL AVENGERS pre-orders began July 7th and product will be available in October. We are excited about working together on this truly ground-breaking play experience and supporting future systems, including STAR WARS in 2016.

STAR WARS shipments and point of sale in the second quarter were up. *STAR WARS REBELS* product is driving demand, and we are seeing anticipation building ahead of the theatrical release of *STAR WARS: THE FORCE AWAKENS*. Hasbro's STAR WARS line based on the film will be at retail on September the 4th, and we unveiled our first *STAR WARS: THE FORCE AWAKENS* BLACK SERIES action figure a few weeks ago at San Diego Comic Con.

It is clear from our discussions with you, that Star Wars continues to be a major area of interest. Our expectations around timing have not changed, and the first significant shipments commence this quarter. We will continue to wave in new product throughout 2015 and in 2016, as the film will continue to be in theatres next year and we will further support the home entertainment release. As a result of the timing of the movie, we continue to anticipate revenues being somewhat equally split between the two years.

In addition to Star Wars, we have a tremendous fall and holiday lineup for the remainder of 2015 across our Franchise, Challenger and Partner Brands.

Content development for Hasbro brands remains a priority for our teams. In partnership with Paramount, in June we brought together a group of tremendously talented writers to begin the creative development on the theatrical future of the TRANSFORMERS Universe.

At San Diego Comic Con, we announced a new relationship with Machinima on an all new digital series targeting the teen and adult TRANSFORMERS fans.

Finally, earlier this month, we announced that we will be collaborating with Lionsgate to bring MONOPOLY to the big screen. We have a tremendous writer, Andrew Niccol, who wrote The Truman Show. The film will be produced by Lionsgate and Hasbro's ALLSPARK PICTURES, with Lionsgate financing the movie.

Our Games business remains critically important to our brand portfolio and we continue investing in gaming across our brands. Games revenues were flat over the first six months of the year. Our underlying trends are good and we have many new innovations for the second half of the year. These include an all new fan driven MONOPOLY HERE & NOW and the addition of the internet phenomenon PIE FACE to our portfolio. We are also driving several entertainment-backed lines supporting both the *Minions* movie and STAR WARS. In addition, we recently launched MAGIC: THE GATHERING ARENA OF THE PLANESWALKERS game, which gives us a new footprint in the strategy board gaming category.

As we further invest in global brand building, we announced last week that we signed a letter of intent to sell our games factories in East Longmeadow, Massachusetts and Waterford, Ireland to Cartamundi.

It was critical for us to find the right owners for these operations. We know Cartamundi well, as we have worked together for years. We believe that within Cartamundi, we have found owners with a strong heritage of manufacturing, a passion for communities and for their people. They will employ all regular manufacturing and distribution employees at both sites and continue to manufacture much of Hasbro's traditional games business. Our agreement includes a five-year commitment to these facilities. The financial impact from this transaction is minimal, and strategically it is the right move for Hasbro and for our people across these operations.

As we enter the second half of the year, we know there is a tremendous amount of work to be done to successfully deliver 2015, and to drive our

Company into 2016 and beyond through strategic investments and global execution of the Brand Blueprint. We are in a position of strength in the global marketplace, with good momentum in our brands and tremendous innovation in our lines.

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

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

In both the second quarter and throughout the first six months of the year, we experienced good momentum in our brands, improvement in our underlying profitability and a strong balance sheet. Over the past twelve months we have generated $581 million of operating cash flow and we ended the quarter with $858 million in cash.

We continue to make important investments back into our business, in particular into strategic brands and new systems, while also returning excess cash to shareholders. Through the first six months of the year, we returned $158 million through our dividend and share repurchase program.

As evidenced by our reported results, the foreign exchange environment remains challenging, but growth in our brands and strong consumer demand, supported by the pricing and hedging actions we have taken to help offset the negative currency impact, is enabling us to effectively manage the challenge. Our international teams have done a great job in understanding their markets and its needs during this time.

Looking at our segments for the second quarter, Revenues in the U.S. and Canada segment increased 1%. Growth in the Boys and Preschool categories more than offset a decline in the Games and Girls categories. Growth in Franchise Brands NERF, PLAY-DOH, MY LITTLE PONY and LITTLEST PET SHOP along with shipments of JURASSIC WORLD, STAR WARS and DISNEY DESCENDANTS contributed to the year-over-year growth. Growth in the U.S. was partially offset by declines in Canada following Target's decision to exit the country.

Consumer demand remained strong, with point of sale in the U.S. increasing in the quarter, and growing in both the U.S. and Canada over the first six months of the year. Point of sale for Franchise Brands increased in both markets for the quarter and year to date.

Operating profit in the U.S. and Canada segment was essentially flat year-over-year at 12.2% of revenues.

International segment revenues declined 9 percent. Europe was down 14% and Asia Pacific was down 6%, while Latin America posted growth of 1%. Emerging Market revenues were also down, declining 11% in reported revenues.

Growth in the Preschool category was more than offset by declines in the Boys, Games and Girls categories. Franchise Brands PLAY-DOH, MONOPOLY and NERF along with Partner Brands, MARVEL and JURASSIC WORLD, were positive contributors to the quarter.

Absent the negative $69.5 million dollar impact of foreign exchange, International segment revenues grew 9% and emerging markets grew approximately 9%. $43 million of the foreign exchange impact was in Europe, with most of the remaining impact in Latin America. Absent FX, Europe grew 6%, Latin America increased 23% and Asia Pacific was up 1%.

Operating profit in the International segment declined 13%, reflecting the negative impact of foreign exchange. Absent this impact, operating profit increased versus 2014.

Finally, revenues in the Entertainment and Licensing segment were flat with 2014. The segment's performance is being driven by entertainment-backed licensing revenues.

Operating profit declined $7.2 million as a result of a less favorable revenue mix, higher amortization expense and the timing of expenses in the quarter versus last year.

Turning to overall expenses for Hasbro,

Cost of sales in the quarter was favorably impacted by product mix, including higher margin, royalty bearing product revenues, as well as the benefit of foreign currency hedges and the impact of pricing actions we have taken to help offset the negative impact of foreign currency. In total, cost of sales declined to 37.0% of revenues versus 38.6% in 2014.

As a result of the revenue decline from *TRANSFORMERS: AGE OF EXTINCTION* movie product, royalties declined year-over-year to 7.2% of revenues. For the first six months, royalties are 7.7% of revenues.

Given the strength of our Partner Brands year to date, cost of sales has trended lower than our previous expectation and royalties have trended higher. We expect both of these trends to continue for the remainder of the year.

Product development increased from last year to 7.2% of revenues. As was the case in the first quarter, this reflects the investment we are making in a number of brand initiatives, in particular in the development of the DISNEY PRINCESS and FROZEN properties ahead of the 2016 launch. We continue to invest in innovation and the future of our business, including investments in new brands. As the majority of these expenses are U.S. dollar based, we expect product development to be slightly above the high end of our previously stated range, which was 5.0% to 5.5% of revenues.

Advertising was flat year-over-year as a percent of revenues as we continue to drive efficiency in our global advertising model.

Intangible amortization increased in the quarter, as we recorded the final quarter of amortization associated with digital gaming rights we reacquired in 2005 and 2007. For the full year, intangible amortization is anticipated to be approximately $44 million, $26 million of which has been recorded over the first six months.

SD&A increased 5% in the quarter to 26.7% of revenues. This increase was driven by similar factors to the first quarter, including higher equity compensation, higher depreciation and continued investments in our business including MAGIC: THE GATHERING's digital platform. These increases were partially offset by favorable foreign exchange. As we've said before, 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 $2.3 million compared to $4.8 million in 2014. Profitability improvements in our 40% share of the operating income from the Discovery Family Channel were offset by higher losses from foreign exchange.

The second quarter underlying tax rate was 27.1% versus 26.8% 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 $0.33 versus the adjusted earnings per share of $0.36 in 2014.

We returned $79.0 million to shareholders in the quarter: $ 57.4 million in dividends and $21.6 million in share repurchases.

Receivables at quarter-end were down 4%, but increased 10% absent the impact of foreign exchange. DSOs were 80 days, consistent with last year.

Inventory decreased $89.0 million versus last year. $20 million of this decline represents the assets we are selling to Cartamundi and are now presented in current assets. Excluding both the pending sale of the factories and the impact of foreign exchange, inventory is essentially flat year-over-year.

As Brian stated earlier, the pending sale of our factories to Cartamundi is not expected to have a significant impact on our income statement. In addition to the Inventory reclassification, $26 million of property, plant and equipment have been transferred to other assets because they are now held for sale.

As we begin the second half of the year, we have good momentum in our business and remain in a strong financial position. We are making necessary investments to position Hasbro for long-term growth while executing across brands and geographies in the near term.

Brian and I are now happy to take your questions.