Hasbro Third Quarter 2013
Financial Results Conference Call Management Remarks
October 21, 2013

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Our third 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 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 initiatives, 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.

With that said, now, I would like to introduce Brian Goldner.

Brian Goldner, Hasbro President and CEO:

Thank you, Debbie.

Good morning everyone and thank you for joining us today.

- In the third quarter, we grew revenues, operating profit and earnings per share. Year-to-date, revenues are flat, but we've grown our operating profit and earnings per share, excluding charges.
- We are entering the critical fourth quarter with innovative products, a full array of immersive brand experiences and comprehensive marketing programs with our retail partners and for our consumers globally.
- We have developed the capabilities and are executing our branded play blueprint to create shareholder value and to deliver growth in shareholder returns over the long-term.

Our focus on innovation is driving our brands. Many of our new initiatives are performing well. NERF REBELLE, MY LITTLE PONY EQUESTRIA GIRLS, TELEPODS, FURBY and BIG HUGS ELMO are all off to a great start.

In total, our Franchise Brands grew 19% in the third quarter– with gains in MY LITTLE PONY, MAGIC: THE GATHERING, NERF, TRANSFORMERS and PLAY-DOH.

Geographically, our emerging markets continued to post double digit revenue growth, increasing 22% in the quarter, with very strong gains in many countries including Russia, Brazil and China. Over the past several years, we have made significant investments in our global infrastructure, and Hasbro is delivering above average growth in the emerging markets. In addition, revenues grew in several developed markets including France, Spain, Italy, Germany and Mexico. In total, Europe, Latin America and Asia Pacific all posted revenue gains in the third quarter.

Our U.S. and Canada segment revenues were down in the quarter given the continued difficult comparisons with 2012 revenues for the Boys category which included two very strong Marvel entertainment initiatives - *The Avengers* and *The Amazing Spider-Man* – and higher sales of BEYBLADE. Consistent with this trend, year-to-date POS was down overall in the U.S., driven by challenging Boys comparisons, but POS grew in the Girls, Games and Preschool categories.

Our top line revenue performance in the quarter was achieved against a backdrop of uncertainty among consumers and retailers in developed economies, which we expect to continue into the fourth quarter.

Retailers remain focused on tighter inventory management. Over the past two years we have made significant improvements in our execution and inventory management in the U.S., and Hasbro inventory at our top four U.S. retailers declined in the quarter.

This improved discipline coupled with strong alignment with our retailers is helping us to better manage our business in the important holiday season. The U.S. team has done great work in developing and implementing a new strategic direction for our U.S. business. Backed by the innovation in our brands across categories and the entertainment coming in future years, we believe the U.S. is poised for future growth.

On a category basis overall for Hasbro, the Boys category declined in the quarter given the difficult comparisons I mentioned earlier. However, new innovations in key franchise and partners' brands delivered growth in both TRANSFORMERS and STAR WARS products in the quarter.

Moving to Girls, our brand initiatives continued to drive positive momentum in the third quarter delivering Girls category revenue growth of 29%. The global roll out of FURBY, continued growth in MY LITTLE PONY and the successful launch of MY LITTLE PONY EQUESTRIA GIRLS, NERF REBELLE and growth in EASY BAKE all contributed to the category's fifth consecutive quarter of growth. Built from in-depth global consumer insights, immersive content and innovation we are successfully expanding our Girls brands globally.

MY LITTLE PONY EQUESTRIA GIRLS was developed from the core values and insights behind the global success of MY LITTLE PONY. We launched this entertainment in theatres in the U.S., and it is now available across all screens globally with strong viewership. MY LITTLE PONY EQUESTRIA GIRLS products launched in major markets in August and have been selling extremely well with additional markets still to launch.

Also extending a growth streak, the Games category posted its fourth straight quarter of revenue growth and increased 6% in the quarter. MAGIC: THE GATHERING again delivered strong gains year-over-year and several other gaming initiatives including JENGA, ELEFUN & FRIENDS and the launch of the all new TELEPODS gaming platform featuring ANGRY BIRDS™ STAR WARS® II positively contributed to the third quarter's 6% increase. Additionally, MONOPOLY and MONOPOLY EMPIRE continued to sell well. Monopoly revenues were flat in the quarter, but have grown year-to-date.

The third quarter was also the first quarter of contribution from Backflip Studios, in which we acquired a 70% ownership position in July of this year. Backflip provided a small contribution to the Games category revenues in the quarter and was slightly dilutive to Hasbro's overall earnings for the third quarter. The studio has a number of new game launches slated for the fourth quarter of 2013 and the first quarter of 2014. Given the anticipated timing of revenues and the associated product development costs, we anticipate Backflip to be neutral to our financials for the full year 2013.

Within Preschool, revenues declined slightly in the quarter, but grew across the brand initiatives where we are focusing our greatest efforts. PLAY-DOH revenues were up in the quarter as were TRANSFORMERS RESCUE BOTS within the PLAYSKOOL HEROES line. Additionally, as I mentioned earlier, BIG HUGS ELMO is off to a strong start and we are very pleased with the early consumer reaction to this highly interactive and engaging Elmo. This great play experience has BIG HUGS ELMO on nearly every hot toy list for the holidays.

Growth in these brands partially offset lower revenues in other preschool initiatives where we are creating new business models to develop and profitably grow our brands. For example, we made the decision to license the TONKA brand to a partner who can develop the products and positively support the brand over the long term. Our TONKA revenue is now higher margin royalty revenue but on a year-over-year basis is lower dollars.

I spoke earlier about the difficult entertainment comparisons within Boys. As we look ahead, the next several years have unprecedented levels of entertainment from Hasbro and our partners' brands – both in film and in television.

In 2014, *Transformers: Age of Extinction* is slated for release on June 27. Marvel has several films planned for 2014, including *Captain America: The Winter Soldier*, *The Amazing Spider-Man 2* and an all new franchise *Guardians of the Galaxy*. In addition, Lucasfilm is unveiling all new *Star Wars Rebels* television programming in 2014.

In 2015, *Star Wars: Episode VII* is scheduled for release as is *Marvel's The Avengers: Age of Ultron*.

From Hasbro, we continue to believe STRETCH ARMSTRONG is a tremendous property and we are developing the brand for television and film in future years. Additionally, the third G.I. JOE film is being developed with Paramount and director John Chu.

In television, our global programming through Hasbro Studios in combination with our partners' global television efforts is reaching viewers around the world and establishing great characters and stories for brand development. Since inception, Hasbro Studios has green-lit more than 900 half hours of original production behind Hasbro brands including MY LITTLE PONY, TRANSFORMERS and LITTLEST PET SHOP.

As evidenced by the success of MY LITTLE PONY EQUESTRIA GIRLS in theatres, on television, via home entertainment and streaming platforms, activating our content across all screens is a critical component to our content strategy. Our goal is to maximize the engagement between our branded entertainment initiatives and our audience wherever they are consuming content.

In the U.S., the Hub Network continues to deliver year-to-year growth most recently posting its eighth consecutive quarter of ratings growth in Total Day while remaining the most co-viewed children's cable network in percentage terms.

In closing, we continue to execute our branded play strategy across our brand blueprint globally. We are doing so with a heightened focus on our greatest opportunities while leveraging the global resources in which we have invested to drive profitable growth across toys & games, licensing, digital gaming and immersive entertainment.

We have finished three quarters of the year, and the critical fourth quarter is just getting started. We have tremendous new innovation and brands in the marketplace this holiday season supported by integrated retail and promotional campaigns globally. Our teams are focused on superior execution and consumer engagement to deliver a successful holiday season in what continues to be a challenging economic environment in many developed economies.

With that, I'd like to turn the call over to Deb.

Deb.

Deb Thomas, Hasbro CFO

Good morning everyone.

Through the first three quarters of the year we continued to drive our business globally across the brand blueprint, while improving profitability, maintaining a strong balance sheet and strategically deploying cash both into our business and returning it to shareholders.

- In the third quarter, revenues grew 2% led by continued strong growth in our emerging markets and overall growth in the International segment;
- Excluding charges, operating profit increased 4% in the quarter and year-to-date;
- Our balance sheet is strong and we continue to generate healthy cash flow; and
- We have taken and continue to take cost out of our business as our cost savings initiative and savings targets remain on track to deliver $100 million in savings by 2015.

In the quarter, we recorded additional charges of $4.1 million or three cents per share associated with our cost savings initiative. Pre-tax restructuring charges in the quarter were $3.0 million and partial pension settlement charges were $1.1 million. Our expectation for gross savings in 2013 continues to be $45 to $48 million with associated expected net savings of $13 to $15 million for the full-year, prior to pension charges.

The following review excludes pension and restructuring charges. A full break down of these charges by segment and by line item on the income statement was included in today's earnings release and slide presentation.

Looking at our segment results for the quarter:

The U.S. and Canada segment revenues and operating profit both declined 5%. Revenues in the Girls category increased and the Games category was flat, partially offsetting declines in the Boys and Preschool category revenues in the segment. As Brian discussed, the Boys category was the biggest factor driving year-over-year revenue declines. Additionally, inventory levels at our top four retailers were also down in the U.S. as retail partners continue to focus on tightly managing inventory.

The U.S. and Canada segment reported a 5% decline in operating profit but a slight increase in operating profit margin to 20.0% versus 19.9% last year. On a year to date basis, revenues in the segment are down 3%, but operating profit has increased 6% to 16.6% of revenues from 15.4% in 2012. The margin improvement is primarily due to a favorable mix of revenues, including continued growth in MAGIC: THE

GATHERING, which we are also investing in for long-term growth of the business.

In the International segment, revenues increased 11% in the quarter. Foreign exchange had a favorable $5.0 million or 1% impact on the quarter. Emerging markets continued to post double-digit growth, increasing 22% in the quarter, and all three international regions were up– with Europe growing 9%, Latin America increasing 14% and Asia Pacific up 17%.

Internationally, the Girls, Games and Preschool categories posted year-over-year revenue growth.

International Segment operating profit margin increased to 18.1% compared to 16.3% in 2012. As we discussed last quarter, overheads in this segment are generally incurred ratably throughout the year, and we gain leverage in the expenses on the higher revenue base later in the year. This expense leverage is the primary driver of the year-over-year gains.

The Entertainment and Licensing segment net revenues also grew in the quarter, increasing 13% behind growth in entertainment revenues as well as the addition of Backflip to the segment this quarter.

Operating profit in the Entertainment and Licensing segment declined primarily from the addition of Backflip expenses to the segment. Additionally, program production amortization increased in the third quarter 2013 versus last year given the mix of programs delivered in the quarter.

Looking at our overall expenses, cost of sales as a percentage of revenue declined in the quarter benefitting primarily from product mix and to a lesser extent lower costs and improved efficiencies at our manufacturing facilities. Additionally, royalties declined on lower revenues from entertainment-based properties.

While we have begun to achieve some of our cost savings, we do have other factors which impacted our expense levels.

Product development grew year-over-year in dollars and as a percentage of revenues. First, the addition of Backflip added to product development expenses in the quarter. Second, as we shared with you in September, we are making incremental investments in our MAGIC: THE GATHERING brand. Finally, we wrote-off early film development expenses associated with films which have not yet moved to production. As Brian mentioned, we continue to develop several film properties.

Intangible amortization also increased slightly in the quarter due to Backflip. In the third quarter, there was an incremental $1.6 million of expense and based on our preliminary valuation we anticipate this amortization to be $6-$7 million in the fourth quarter. We are in the final stages of the valuation process, but we anticipate amortizing approximately $35 to $40 million over a four year time period based on the related revenues.

Finally, SD&A increased in the quarter consistent with the factors we outlined previously including higher compensation expense, higher depreciation and investments we are making in our MAGIC: THE GATHERING brand.

Turning to our quarterly results below operating profit for the third quarter:

Total non-operating expense decreased slightly from 2012. For the third quarter 2013, our 50% share in the Hub Network was a loss of $91 thousand dollars compared to a loss of $1.8 million a year ago. As we stated last quarter, we expect the contribution from the Hub Network in 2013 to be similar to 2012 and the Hub Network has a plan to achieve pre-tax profitability in 2014.

In the quarter, we recorded a favorable tax adjustment of $23.6 million or $0.18 per share related to the settlement of a tax exam. Excluding this adjustment, our underlying tax rate for the third quarter 2013 was 26.5% compared to an underlying tax rate of 26.6% in the third quarter 2012 and 27.0% for the full year 2012. We expect our underlying tax rate for the full year 2013 to be approximately 26.5% to 27%.

For the quarter, average diluted shares were 131.8 million shares compared to 132.5 million shares last year. Diluted earnings per share, absent charges and the favorable tax adjustment, were $1.31 versus $1.24 in 2012.

Hasbro also continues to generate strong cash flow. Operating cash flow was $47.3 million in the quarter and $438.5 million for the trailing twelve months. This includes $165 million in prepaid royalties to Disney over the trailing twelve month period.

At quarter end, cash totaled $588.7 million versus $696.7 million in 2012. 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. Our next quarterly dividend payment of $0.40 per share is scheduled for November 15.

During the third quarter 2013, we repurchased approximately 644,000 shares of common stock at a total cost of $30.0 million and an average price of $46.62 per share. At quarter end, the Company had repurchased a total of 1.93 million shares of common stock year-to-date. In August, our Board of Directors authorized the Company to repurchase an additional $500 million of our common stock. $542 million remained available in the current share repurchase authorizations at quarter end.

Receivables at quarter end increased 2% in line with the growth in revenues and DSOs were flat with last year at 80 days.

Inventories declined $16.3 million versus last year driven by declines in the U.S. and Canada segment. This was partially offset by inventory increases in emerging markets supporting the growing business in those regions. As we mentioned earlier, our inventory at U.S. retail is down in the quarter and overall at retail and at Hasbro inventory is of good quality.

With the critical fourth quarter underway, Hasbro is well positioned with innovative brand initiatives, compelling global marketing campaigns, disciplined execution and a strong financial position.

Now, Brian and I are happy to take your questions.