Hasbro Third Quarter 2012
Financial Results Conference Call Management Remarks
October 22, 2012

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Our third quarter earnings release was issued earlier this morning and is available on our website. Additionally, also available on our web site, are presentation slides containing information covered in today's earnings release and call. The press release and presentation include information regarding Non-GAAP financial measures included in today's call. Please note that during today's call, 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 third quarter financial results and discuss important factors impacting our performance. Following their statements, David Hargreaves, Hasbro's Chief Operating Officer, will join Brian and Deb to field 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, financial goals and expectations for our future financial performance, including expectations for revenues and EPS in 2012.

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.

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.

As early as November of last year, we communicated with you several key objectives for 2012 including:

- Growing revenues and earnings per share for the full year, absent the impact of foreign exchange;
- Returning the U.S. and Canada segment to historical operating profit margins;
- Executing globally by leveraging our investments in new and emerging markets;
- Stabilizing our Games business and positioning it for growth in 2013 and beyond; and
- Growing our Girls business.

Nine months into the year, we are delivering on these objectives and we believe we are well positioned to achieve them for the full year 2012 in a challenging environment.

Now, as we enter the holiday season, it is all about new Hasbro and partner initiatives across brands, categories and geographies – including re-imagined and completely new brands.

FURBY is one of the most exciting new initiatives for the holiday season and is off to a great start. The team did a tremendous job re-imagining this brand for today's consumers by integrating innovative new technologies with a great all new personality that develops depending on how you interact with your FURBY. For more interactive fun, you can download the free app to virtually feed FURBY and access a FURBISH to English dictionary. FURBY is available in English speaking markets this holiday season and will ship globally in 2013.

Backed by two tremendously successful films, we have seen good momentum with our MARVEL products throughout 2012. Similar to how we are building Hasbro brand franchises, we partnered with Marvel to expand into new categories, including Games and Preschool, and to execute across markets globally. We have innovative new items for the holiday for both MARVEL's THE AVENGERS and THE AMAZING SPIDER-MAN.

In addition to FURBY and our MARVEL line, we believe we have the strongest holiday line in a number of years, including great new products from brands like FURREAL FRIENDS, BABY ALIVE, MY LITTLE PONY, LITTLEST PET SHOP, ONE DIRECTION, NERF, KOOSH, BEYBLADE, TRANSFORMERS, PLAYSKOOL and PLAY-DOH. You can see many of these initiatives on page 5 of the presentation.

As with Toys, our Games line for the Holiday 2012 is the strongest it has been in years. The Hasbro brands and innovative platforms created by our new Games team come together for the first time this holiday season. We completely re-imagined TWISTER as TWISTER DANCE and it is off to a strong start. An entirely new LAZER TAG is delivering live laser combat integrated with your iphone and ipod. Within our Monopoly brand, the MONOPOLY MILLIONAIRE game is all new – and the first to a million dollars wins.

This summer we launched KAIJUDO: RISE OF THE DUEL MASTERS, an all new brand from Wizards of the Coast. KAIJUDO features an online battle game, trading card game, an online trading card game and a television series airing in the U.S. on The Hub TV network.

We also have established new partnerships in the gaming space which are coming to retail this fourth quarter. Along with Rovio Entertainment and Lucasfilm, we recently announced a line of games and toys based on ANGRY BIRDS STAR WARS. Also, our new line of ZYNGA games including WORDS WITH FRIENDS, CITYVILLE and DRAW SOMETHING, is available for the holidays.

Leading up to the holiday and as we execute 2012, we have re-emphasized building a consumer centric organization and executional plan. This starts by having the right brands with innovation based on great consumer insights, ensuring the right inventory is at retail when the consumer is shopping and partnering with our retailers to develop integrated marketing campaigns. This is our model for future years.

In the U.S. and Canada segment we set the objective to return to historical levels of operating profit margins for the full year 2012. Year-to-date we are on track, posting an operating profit margin of 15.2% versus 13.7% last year and reaching 19.9% in the third quarter.

To drive demand in the fourth quarter, we are increasing our U.S. media support by 30 to 40% - across TV, digital and social media.

Internationally, our business is more global than ever. Our investments in emerging markets are delivering growth in many new countries including Brazil, Peru, Chile, Colombia, Turkey and Russia. Overall, our growth internationally, absent foreign exchange, was more modest this quarter as mature economies in Spain and France are facing challenging economic environments.

For the quarter, we again grew revenues in Latin America, which increased 9% as reported. European revenues were flat absent the negative impact of foreign exchange, while Asia Pacific declined due primarily to Australia. Many international markets face difficult comparisons against very strong TRANSFORMERS and BEYBLADE shipments last year.

Throughout 2012, our category performance has been impacted by the later shipment pattern in the U.S. Beginning in the third quarter, our new initiatives are starting to have a positive impact.

As we've highlighted all year, the Boys category has challenging comparisons with last year. Despite very strong performance from MARVEL, including MARVEL's THE AVENGERS and THE AMAZING SPIDER-MAN, the comparisons with TRANSFORMERS and BEYBLADE are difficult. Also, we have expanded the reach of many of our traditionally boys only brands to outside the Boys category. We now have strong MARVEL, STAR WARS and TRANSFORMERS initiatives in both the PRESCHOOL and GAMES categories.

For the third quarter, the Girls category posted very strong growth, increasing 17%, as FURBY, MY LITTLE PONY, EASY-BAKE and ONE DIRECTION all contributed to growth year-over-year. Within key brands, BABY WANNA WALK from BABY ALIVE as well as BABY BUTTERSCOTCH and BOUNCY MY HAPPY TO SEE ME PUP both from FURREAL FRIENDS, are off to a good start.

All year we have remained positive toward our goal of growing the Girls category given the strength of our line for the holiday. The third quarter reinforced this optimism.

Also in line with the objective we set at the beginning of the year, our Games category is stabilizing; posting flat revenues in the third quarter, and the team is positioning us for growth in 2013 and beyond.

In addition to continued strong performance from MAGIC: THE GATHERING, we had several successful game launches this year within Boys Action Gaming as well as with BATTLESHIP. On shelves for the holiday, LAZER TAG and TWISTER contributed to the category in the third quarter. We also began shipping ahead of the fourth quarter launch for both our ANGRY BIRDS STAR WARS and Hasbro's ZYNGA games.

For the Preschool category, the brand expansion I spoke to is evident in the growth of our PLAYSKOOL HEROES line. Also within Preschool, we launched all new KOOSH blasters and PLAYSKOOL ROCKTIVITY while delivering growth in PLAY-DOH. In comparison to last year, the third quarter 2011 had significant shipments for the initial launch of our SESAME STREET line.

Looking across categories, as we execute our branded play blueprint, content for both television and films is helping us build Hasbro's global brand franchises.

Television is driving brands including TRANSFORMERS PRIME and RESCUE BOTS as well as MY LITTLE PONY. Hasbro Studios shows are airing in more than 170 countries worldwide and on a number of home entertainment and digital distribution platforms around the world.

In the U.S. the HUB continues to make significant gains in distribution and ratings. As of the third quarter, the HUB's distribution had increased significantly and is now in more than 70 million households, making it one of the fastest growing networks year-to-date among all cable TV networks in terms of distribution gains. Ratings also continue to grow, and the third quarter was the best in the network's history posting a 62% increase year over year and a 28% increase versus the second quarter 2012 in kids 2 to 11, representing the strongest growth among all kids' cable TV networks.

As we look to 2013, the global entertainment slate we are developing product for is deep and broad with several major films and continued global television support for Hasbro brands and our partners' brands.

First, *G.I. Joe: Retaliation* is expected in March 2013 in 3-D with our partners at Paramount.   In May, IRON MAN 3 in 3D from Marvel Studios is scheduled for release as well as STAR TREK from Paramount. 20th Century Fox is planning to release THE WOLVERINE in July and Marvel Studios has scheduled THOR: THE DARK WORLD in 3D for November. Lucasfilm is also releasing in 3D STAR WARS episode 2 and episode 3 in September and October, respectively. Additionally, from Hasbro and Universal, OUIJA is scheduled for release next year.

As we continue developing Hasbro brands globally in 2013 and beyond, we have a number of television programs slated for next year including *Transformers Prime* and *Rescue Bots, Kaijudo, My Little Pony* and *Littlest Pet Shop*. Marvel has new programming for ULTIMATE SPIDER-MAN, HULK and the AGENTS OF S.M.A.S.H and

MARVEL's AVENGERS ASSEMBLE premiering in 2013 and Lucasfilm continues the successful Clone Wars series. Working with our partners at Nelvana and d-Rights, BEYBLADE has all new animation planned, tied to new brand innovation and new entertainment to help ensure BEYBLADE remains a vital and evergreen part of our Boys portfolio.

In closing, our focus this fourth quarter is on delivering on our objectives for 2012. It all comes down to connecting with consumers and ensuring they give more Hasbro toys and games this holiday season than last year, and we believe we have the brands and the marketing support to achieve that goal in the fourth quarter.

Now, I would like to turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you and good morning.

As you'll recall, beginning last November, we said our plan for this year was that it would come later and as Brian outlined, we are on track with our plan for 2012. In many markets the economic environment is challenging, but we are entering the all important fourth quarter with innovative products, leading brands and a higher level of consumer marketing programs, that are just beginning to be executed.

In the third quarter, net revenues increased 1% in constant dollars. Including a negative $47.4 million dollar impact from foreign exchange, third quarter worldwide net revenues as reported were $1.35 billion versus $1.38 billion last year.

Operating profit for the quarter was $249.6 million or 18.6% of revenues, compared to operating profit of $248.1 million or 18.0% of revenues in the third quarter 2011.

Net earnings for the third quarter 2012 were $164.9 million, or $1.24 per diluted share. This compares to net earnings of $171.0 million or $1.27 per diluted share last year. Absent foreign exchange translation, net earnings were essentially flat year-over-year and EPS was up one cent to $1.28 per share versus last year.

Cash grew year-over-year to $696.7 million, on $143.6 million of operating cash flow year to date and $538.6 million in operating cash flow over the past twelve months. We remain in a strong cash position to fund our business and continue returning cash to shareholders.

Looking at our third quarter 2012 results by segment:

The U.S. and Canada segment is on track with our plan to return to historical levels of operating profit. Net revenues in the segment this quarter were $774.5 million, up 1% versus $764.6 million in 2011. We continued to partner with our retailers to align our shipments with consumer demand. As a result, current retail inventories in the U.S. were down, decreasing approximately 22% from last year despite new shipments for the holiday season.

With our new holiday items now shipping, the Girls and Games categories grew in the quarter, and were partially offset by a decline in the Boys category and a decline in the Preschool category, which faced tough comparisons against last year's initial Sesame Street launch.

As I mentioned, the U.S. and Canada segment is on track to return to historical operating profit margins for the year. In the quarter, operating profit increased 20% to $154.2 million and an operating profit margin of 19.9%. This compares to last year's third quarter operating profit of $128.8 million or 16.8% of revenues. The improvement in operating profit was the result of higher gross margins due to product mix and lower overall expenses, partially offset by higher advertising spend.

Third quarter 2012 International segment net revenues grew 1% absent a negative foreign exchange impact of $47.1 million. The International segment revenue as reported was $524.1 million, down 7%, versus $563.3 million last year. Latin America again posted growth in the quarter, increasing 9% year-over-year. Absent foreign exchange, Europe was essentially flat year-over-year and Asia Pacific declined in the quarter.

Our global footprint is bigger today than it was a few years ago. Growth in emerging markets helps provide support to offset the challenges facing some mature markets.

From a product category standpoint in the International segment, the Games and Preschool categories were flat while the Boys and Girls categories declined.

Operating profit in the International segment decreased $15.2 million to $85.5 million or 16.3% of revenues. Excluding foreign exchange translation, operating profit decreased by $8.1 million, primarily due to lower expense levels in the third quarter 2011 due to the timing of when certain expenses were incurred last year. This should normalize on a full year basis.

The Entertainment and Licensing segment net revenues decreased 7% to $43.1 million compared to $46.3 million in 2011. The segment continues to benefit from increasing sales of television content in all formats, including global television distribution, digital distribution and home entertainment. This was offset by year-over-year declines in movie-related revenue, including lower revenues from licensed product associated with the third TRANSFORMERS motion picture and a onetime movie payment of $5 million received in the third quarter last year.

For the third quarter 2012, the Entertainment and Licensing segment reported an operating profit of $10.7 million versus $15.3 million in 2011. The decline in operating profit reflects the profit impact of the onetime payment received in 2011.

For the Company overall, cost of sales for the quarter was $586.5 million or 43.6% of revenues versus $599.5 million, which was also 43.6% of revenues last year.

From an expense standpoint, total operating expenses declined to $509.0 million, or 37.8% of revenues, versus $528.2 million or 38.4%, last year.

Program production amortization in the quarter totaled $12.8 million versus $7.8 million last year. Year-to-date in 2012 our expense totaled $26.0 million. We continue to experience lower than expected program production amortization due to our current expectations of ultimate revenues and the current mix of programming. For the full year 2012, we now expect program production amortization to be in the $40 to $50 million dollar range. As we continue to gain production efficiencies, we anticipate spending less on programming from a cash standpoint, and now expect cash spend to be in the $50 to $60 million dollar range for the current year.

Third quarter 2012 royalties were 6.6% of revenues compared to 7.9% of revenues in 2011. This reflects strong global growth in MARVEL this year, but was more than offset by lower sales of other royalty bearing entertainment properties. For the full year 2012, we anticipate royalties to be in the 7 to 8% of revenues range.

Our advertising to revenue ratio in the third quarter was 10.0% versus 9.5% in 2011, consistent with our stated plan to increase our investment in advertising in 2012. For the full year, we continue to anticipate advertising in the 10 to 11% range.

SD&A of $210.9 million decreased $9.3 million year-over-year primarily due to foreign exchange. As a percentage of revenues SD&A was 15.7% versus 16.0% in 2011. We continue to target SD&A to be approximately 20% of revenues for the full year 2012.

Moving below operating profit:

Other expense was $1.6 million in the third quarter of 2012 versus $4.1 million in 2011.

Our 50% share of THE HUB is included on this line on the P&L. For the third quarter 2012, our share of the earnings in THE HUB was a loss of $1.8 million compared to a loss of $1.5 million a year ago. We continue to expect THE HUB's impact for the full year 2012 to be in line with 2011 levels.

Our underlying tax rate in 2012 was 26.6% compared to an underlying tax rate of 25.1% through the third quarter last year. We expect our full year tax rate to be in line with the third quarter's 26.6% rate versus the 2011 full year underlying rate of 26.2%.

Turning to the balance sheet:

At quarter end, cash totaled $696.7 million compared to $187.0 million a year ago and $779.9 million at the end of the second quarter. For the trailing twelve months, operating cash flow of $538.6 million includes $61.6 million in television programming costs over the period.

We continue to return cash to shareholders through our quarterly dividend program and in the third quarter we paid $46.9 million in cash dividends to shareholders. Over the past twelve months, our dividend payout has been approximately 50% of net earnings during that period.

After repurchasing approximately $5 million worth of shares in the third quarter, $212.2 million remained available at quarter-end under our current share repurchase authorization. As we discussed earlier in the year, our repurchases have been more modest in 2012 especially during the periods with lower cash generation for our business. We continue to repurchase shares opportunistically in the open market.

The quality of our receivables portfolio is good and receivables at quarter end were $1.20 billion versus $1.26 billion last year and $651.4 million at the end of the second quarter.

DSOs were down two days versus last year to 80 days. DSO improvement this year is the result of the timing of shipments and improved collections.

Inventory levels at quarter end were down $55.4 million or 11% year-over-year to $463.4 million compared to $518.9 million a year ago and $416.9 million at the end of the second quarter. Declines in the U.S. and Canada Segment inventories were partially offset by higher international inventory supporting our expanded international operations.

Depreciation and capital expenditures for the quarter were $31.4 million and $24.8 million, respectively.

With three quarters behind us, we have made progress toward reaching our objectives for the year, but, as Brian stated, the fourth quarter is where it all comes together. We know we have great products, strong marketing campaigns and a focus on quality execution. As a result, we continue to believe we can grow revenues and earnings per share, absent the impact of foreign exchange, for the full-year 2012 including a modest increase in operating profit margins. Our objective remains to grow operating profit faster than revenues in future years.

Brian, David and I are now happy to take your questions.