Hasbro First Quarter 2021

Financial Results Conference Call Management Remarks

April 27, 2021

Debbie Hancock, Hasbro, Senior Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me today are Brian Goldner, Hasbro's Chairman 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. Then we will take your questions.

Our earnings release and presentation slides for today's call are posted on our investor website.

The press release and presentation include information regarding Non-GAAP adjustments and Non-GAAP financial measures. Our call today will discuss certain Adjusted measures, which exclude these Non-GAAP Adjustments. A reconciliation of GAAP to non-GAAP measures is included in the press release and presentation.

Please note that whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

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.

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.

These factors include those 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.

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 and CEO

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

The first quarter was an excellent start to the year, with growth in both sell in and point of sale for our Consumer Products segment; robust engagement from gamers driving double-digit growth in the Wizards of the Coast and Digital Gaming segment; and we remain on track to deliver our full year expected revenue growth in Entertainment. I want to recognize and thank the Hasbro employees around the world who continue to work through a pandemic and were able to deliver such a high-quality quarter with revenue momentum, profit improvement and strong cash generation.

This quarter marked the first with our new reporting segment structure, which provides a clearer view of the drivers of Hasbro revenues, profit, margin and cash generation. As we shared at our investor event in February, our Brand Blueprint succeeds as we create value from our three businesses—Hasbro Consumer Products, including toys and games; Wizards of the Coast and Digital Gaming; and Entertainment. Each has a growth plan that drives that segment but also drives growth across Hasbro. Our teams and expanding capabilities are enabling us to unlock the full potential of our brands and Company.

Deb will speak to the quarterly segment performance in more detail shortly. It is clear our unique portfolio of brands and capabilities is driving long-term, sustainable profitable and cash generative growth while we invest to build bigger, better brands across a much bigger universe that includes toys and games but also spans digital gaming and entertainment revenues. With double digit year-over-year growth in both Consumer Products and Wizards of the Coast and

Digital Gaming these businesses are up nearly 20% from the first quarter 2019, pre-Covid. Importantly, the quality of this growth is impressive as we have added $120 million in operating profit dollars between the two segments.

We continue to see consumers choosing Hasbro brands as evidenced by the 9% point of sale growth globally and nearly 20% point of sale increase in the U.S. This does not reflect most of MAGIC: THE GATHERING or DUNGEONS & DRAGONS and does not yet reflect Hasbro's line of PEPPA PIG and PJ MASKS toys and games.

Hasbro Franchise Brands revenues increased 24%, with gains in MAGIC: THE GATHERING, PLAY-DOH, NERF, TRANSFORMERS and BABY ALIVE.

NERF revenue increased in all regions with high-single digit POS led by the U.S. and Europe. Innovation for consumers of all ages is driving this growth, including Dinosquad which released in March, Elite 2.0 and our high-performance Ultra line which have now fully set around the world, continued strength in our licensed Fortnite business and the March launch of the Rival Curve Shot. We have more innovation coming with the NERF Hyper line and the newly announced NERF Roblox for fans of the massively popular game.

TRANSFORMERS revenue growth was led by gains in the U.S. and Asia Pacific, and global point of sale was up nearly 40%. Innovation and storytelling are central to driving TRANSFORMERS and the eOne team is expanding the reach and relevance of the brand through world class entertainment across platforms and demographics. We delivered our latest *War For Cybertron* content in partnership with Netflix on December 30 supported by new products that drove first quarter's performance. *War for Cybertron* Chapter 3 will be airing this summer and, in partnership with Paramount, the next feature in the theatrical TRANSFORMERS franchise is slated for 2022.

TRANSFORMERS continued to be the top brand performer on Hasbro Pulse in the first quarter delivering the much anticipated HasLab Unicron. The brand kept the momentum to start Q2. In partnership with Robosen, during Hasbro Pulse Fan Fest earlier this month, we unveiled a $700 Auto-Converting Optimus Prime Robot, which sold out in pre-sale in less than 10 hours.

Ecomm revenues increased 70% in the quarter. COVID continues to shift consumer shopping behaviors, accelerating the shift to digital for Hasbro, our pure play ecomm retailers, and our Omni channel retailers as supported by their investments in technologies and services like curb side pickup.

For the quarter, revenue in the total gaming category including MAGIC and MONOPOLY increased 7% as gaming continued to be a focal point for players, consumers and retailers. Throughout last year robust demand drove high point of sale and revenue growth. In the Consumer Products segment, this surge in gaming demand began around week 12 of last year. If we look at the U.S. this year, heading into that same week our games point of sale was up more than 30%. Once we hit week 12, point of sale slowed. Despite the tough comparison, underlying game demand is healthy and point of sale is more than 30% higher than 2019 pre-COVID levels. We have many new games both this spring and for the holiday and availability of classic games to continue meeting the high levels of gaming demand.

Within Wizards of the Coast and Digital Gaming, MAGIC: THE GATHERING and DUNGEONS & DRAGONS both posted double-digit revenue increases. Fueling this growth is both tabletop and physical play as well as the team's continued expansion in digital. MAGIC was up against an exceptionally good first quarter shipment number last year. Based on release strength and timing, we continue to expect the second quarter to be the biggest for MAGIC and Wizards this year. *Arena* revenue was also higher, including a late first quarter release on mobile. DUNGEONS & DRAGONS licensed digital gaming revenue also increased. *Dark Alliance* is slated for release in June and the game is receiving positive early buzz.

Partner Brands revenues grew 3%, behind strong growth in Hasbro products for *Star Wars* as well as continued strength in products for *The Mandalorian*; as well as growth in Marvel led by momentum in the Spider-Man franchise across all consumer segments and new products for Marvel Studios' *The Falcon and The Winter Soldier* unveiled at quarter end that will be fully distributed in the second quarter.

Shifting to our Entertainment business, our eOne team has more than 200 projects in development across TV, film and animation, featuring more than 30 Hasbro IPs. As we spoke to earlier this year, we had theatrical revenues in the first quarter last year but do not this year due to COVID-related closures. We are also planning for television deliveries to be later this year versus last. We remain on track for our target to reach 2019 TV and Film revenue levels this year.

With our partners at Paramount, the GI JOE *Snake Eyes* movie release is now set for July 23 and the brand team continues to drive engagement and demand with fans through product and events including our Pulse initiatives. The eOne team is also shepherding the relaunch of MY LITTLE PONY with new content across digital and broadcast networks, with *Pony Life*, and the release of the CG Animated film on Netflix this September.

We are currently in pre-production for the *Dungeons & Dragons* live-action feature, with a new release date of March 3, 2023 and an amazingly talented cast and crew.

During the quarter the team wrapped principal production on two films -*All the Old Knives* and *Arthur the King*- and are currently in post-production on both. In scripted TV, *Cruel Summer* completed filming and premiered last week on Freeform and we continued deliveries of season 3 of *The Rookie.* In unscripted, we have a robust slate of shows in Canada, the U.S., and the U.K. underway, with more than 40 active productions.

We announced yesterday an agreement to sell the eOne music business for $385 million. We continue to focus on the core strategic elements of our Brand Blueprint as a play and entertainment company. While we plan to continue working with the music group including music supervision and music rights exploitation across several brands, music was not the primary driver of our acquisition of eOne. This transaction will allow the team to continue investing to grow and unlock value for its many talented artists and partners.

I want to recognize the leadership of Chris Taylor, his dedicated team and the entire organization. We thank them for their countless contributions and look forward to working with them on various projects well into the future. We plan to use the net proceeds from the sale to accelerate deleveraging and for general corporate purposes.

The first quarter's results are a good start toward achieving our target of double-digit revenue growth this year. The team did an excellent job delivering profit growth, strong cash generation, paying our dividend and reducing our debt profile. We have tremendous innovation and content coming this year and we look forward to sharing more details as the year progresses.

I will now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you, Brian and good morning everyone.

We began 2021 with a very good first quarter, which demonstrates the strength of our portfolio, our focus on driving profitable revenue growth and progress toward our commitment to strengthening our balance sheet as our goal remains to return to our stated target of 2.0-2.5X debt to EBITDA. Revenue grew 1%, including a positive $18 million impact from foreign exchange; adjusted operating profit grew 15%; adjusted EBITDA increased 24%; and adjusted earnings per share were $1.00.

Our continued focus on working capital was evident. We generated operating cash flow of $378 million and ended the quarter with $1.43 billion in cash, after paying off $300 million in debt which was due in May and paying our quarterly dividend. Receivables declined with improved collections and the quality of receivables improved. DSO was 66 days versus 79 last year. Inventory was also down, decreasing 7% absent FX. We remain in a very healthy financial position as we invest to profitably grow.

As Brian mentioned, this is the first quarter we have reported under our new operating segments. Consumer Products segment revenues grew 14% behind growth in Franchise Brands, Emerging Brands and Partner Brands. Hasbro Gaming, excluding MAGIC and MONOPOLY, was down just slightly versus the difficult comparison with last year's strong performance. Revenue grew in each geographic region, led by the U.S. and Europe, along with growth in Asia Pacific and Latin America. Retail inventories declined in most markets, including the U.S. and Latin America, and the quality of inventory is good. Licensed consumer products revenue also increased in the quarter with strong demand for our brands. Foreign exchange had a favorable $9 million impact on the segment.

Operating profit for the segment increased $42.0 million on higher revenue somewhat offset by increases in royalties and advertising as well as higher freight costs. Profit was up throughout the segment, with North America, Europe and Latin America contributing the most to profit improvements.

Wizards of the Coast and Digital Gaming segment revenues gained 15% in the quarter. Both major brands in the segment, MAGIC: THE GATHERING and DUNGEONS & DRAGONS contributed to growth. Foreign exchange had a favorable $4 million impact. Operating profit grew with higher revenue, which was partially offset by increased product development, as previously capitalized digital game development is now being expensed, as well as higher advertising spend to support the mobile launch of Magic *Arena* and the upcoming launch of *Dark Alliance*. Operating profit margin was essentially flat, but we expect the expense cadence to impact future quarters more significantly.

Entertainment segment revenues declined 32%, primarily due to the TV and Film business. Foreign exchange had a favorable $5 million impact in the quarter. As Brian discussed and we shared with you earlier in the year, the comparison to last year when theaters were open was challenging. Given the nature of entertainment delivery timing, we will have revenue variances quarter to quarter, but our full-year plan remains to deliver double-digit growth in the segment, beginning with growth in the second quarter. Operating profit declined on lower revenue, but lower program amortization and advertising contributed to higher operating profit margin for the segment.

Our cash spend on content across scripted and unscripted live action, animated TV and film is planned to be in the range of $675 million to $750 million for the full year. In the first quarter, we spent approximately $147 million of that plan.

Looking at our overall Hasbro P&L,

Gross margin, including cost of sales and program amortization, increased 90 basis points. This improvement resulted from a reduction in program amortization as a percent of revenue, the favorable impact of growth in Wizards and fewer close out sales.

Cost of sales increased both in dollars and as a percentage of revenue, including higher freight costs as we spoke to earlier this year. Freight capacity continues to be very limited and more expensive across all markets. We have been actively managing transportation to minimize the impact. This includes using more air freight at a higher cost than our initial plan.

In addition to higher freight costs, we, like most other companies, have seen significant increases in resin, packaging material and metal prices. We are proactively mitigating such cost pressures with our vendors, but the trends have accelerated in recent months. We have covered this increase year to date, but recently communicated to our customers price increases for Hasbro toy and game products to help further mitigate the higher input costs.

Product development increased 60 basis points reflecting ongoing digital gaming investments. *Magic Arena* on mobile was the first of several games scheduled for release this year, with additional games slated for release in future periods.

Advertising declines were driven by lower promotional spend at eOne due to lack of theatrical releases this quarter. We increased advertising spending at Wizards in support of digital gaming launches and increased advertising in the Consumer Products segment.

SD&A included higher freight and warehousing costs along with higher stock compensation and phased bonus expense, partially offset by declines from cost savings and integration initiatives.

During the second quarter, based on the value allocated to the eOne music business at purchase, we anticipate recording a non-cash, pre-tax loss of approximately $125-135 million from the sale. This amount includes expected transaction costs.

The first quarter underlying tax rate was 19.5% and based on currently enacted tax law, we expect our underlying tax rate for 2021 to be approximately 21% or slightly higher, excluding the amortization of the eOne acquisition intangible.

Other income, net was $30.1 million. This includes a $25.6 million gain, or $0.19 per share, from a legal settlement realized in the first quarter of this year. Adjusting for that gain, other income was slightly lower year over year.

We are very pleased with the quality of the first quarter and how it positions us to deliver our plan for the year. The team has continued to navigate the ongoing impacts of the pandemic to deliver strong results for the business while managing the health, safety and well-being of our employees. Our plans are in place to continue innovating, continue telling compelling stories, and continue creating the experiences that bring people together to drive our business in 2021 and beyond.

Brian and I are now happy to take your questions.