Hasbro Third Quarter 2016
Financial Results Conference Call Management Remarks
October 17, 2016

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me this morning are Brian Goldner, Hasbro's Chairman, 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 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. 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.

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.

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:

Q3 2016 Earnings Conference Call DRAFT

Brian Goldner

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

The Hasbro team delivered a tremendous third quarter – the highest revenue and earnings quarter in Hasbro's history. Revenues grew 14% behind innovative products and engaging storytelling, increasing across all major operating segments and geographies. Operating profit increased faster than revenues, up 19%, and we continued investing to profitably grow for years to come. Our financial position is strong, and we returned $112 million in cash to shareholders during the quarter.

As we develop Hasbro into a global play and entertainment company, we have built robust brand building capabilities, including storytelling, that supports an expansive brand portfolio. Today, we are garnering a greater share of life than ever before, by reaching broader demographics, play experiences and geographies.

Our innovation, marketing and investments are informed by the global consumer insights we are uncovering as we engage with consumers and audiences across touchpoints and mediums. The investments we have made in our digital expertise enable our global teams to develop immersive brand experiences which in turn elevate our connection with consumers and fans. This has far reaching implications in how we develop brands, engage with consumers, tell stories, and spend our marketing dollars. Our digital expertise is differentiating our brands. Thus far in 2016, videos Hasbro curated or created, along with user generated content, garnered nearly 5 billion views.

Third quarter revenues grew at a double digit pace in both the US and Canada and International segments. Developed economies including the U.S., Canada, U.K., France, and Italy each grew revenues double-digits. Emerging markets increased 16% with strong growth in Latin America, including Brazil, as well as in Asia, including China.

The industry also continued to grow, up 6% through August according to industry and company estimates, and Hasbro is gaining share. Importantly, we gained share in emerging markets such as Brazil and Russia, as well as developed economies including the U.S., U.K., Spain, Italy and Australia.

Global point of sale increased slightly in the quarter, overcoming difficult entertainment comparisons at retail, including a later set date for STAR WARS this year and post movie declines for JURASSIC WORLD. Girls and Games POS increased while Boys and Preschool declined. We are seeing strong POS as we start the fourth quarter.

In respect to Hasbro third quarter revenues, Hasbro Franchise Brands increased 2%. This growth was led by MAGIC: THE GATHERING, NERF, TRANSFORMERS and PLAY-DOH.

NERF grew for the 15th consecutive quarter while PLAY-DOH extended its growth streak to 20 straight quarters. In addition, TRANSFORMERS and MAGIC: THE GATHERING revenues increased.

TRANSFORMERS: ROBOTS IN DISGUISE animation as well as streaming content from Machinima is supporting product lines which have strong initial consumer reaction. Importantly, TRANSFORMERS has good momentum heading into 2017, which marks the first of three years with planned major theatrical entertainment.

We have momentum in our gaming portfolio, with growth in several brands driving the 13% increase in the category. MAGIC: THE GATHERING, DUEL MASTERS, PIE FACE, SIMON and BOP-IT were among the brands posting positive gains. Despite most of MAGIC'S revenue not being included in our POS reports, POS for the Games category grew. Hasbro's gaming portfolio is unmatched and we are cultivating gaming experiences across a multitude of platforms including face-to-face gaming, off-the-board gaming, and digital gaming experiences – notably in mobile. One of our newest games, SPEAK OUT, has generated more than 100 million online views. Consumer takeaway has been extremely strong and we are working to catch up to demand.

Within our mobile gaming portfolio, Backflip Studios is scheduled to unveil an all new mobile game, DRAGONVALE WORLD, during the fourth quarter. This marks the first major release for this gaming property since Hasbro took a 70% stake in the studio. Backflip has also unveiled several new mobile games this year based on Hasbro brands, including TRANSFORMERS: EARTH WARS and just last week, MY LITTLE PONY: PUZZLE PARTY.

The MY LITTLE PONY franchise continued to drive brand awareness through the strategic use of entertainment, pop culture events and consumer products expansion. In a very competitive small doll segment, our holiday items and new launches are beginning to drive POS gains in many markets around the world. In 2017, the MY LITTLE PONY movie will bring global audiences to all new worlds with both the core cast of characters along with all new characters.

In addition to our Franchise Brand and Gaming portfolio, innovative new offerings at a variety of price points delivered growth for BABY ALIVE, FURBY and FURREAL FRIENDS.

Within our Partner Brands' portfolio, revenues increased 19%, driven by positive contributions from Hasbro's shipments of DISNEY PRINCESS and DISNEY'S FROZEN, DREAMWORKS' TROLLS and YO-KAI

WATCH. For the full year, we now expect Partner Brand revenues to approach 30% of total Hasbro revenue.

Hasbro's line of DISNEY PRINCESS and DISNEY'S FROZEN is off to a strong start behind a favorable reception to our core Shimmer Fashion Doll assortment. Overall the brands are ahead of our plans for the year and we recently expanded our offering with new holiday items as well as new items in support of entertainment for ELENA OF AVALOR and MOANA.

STAR WARS continues to be a top global property with strong consumer and retail support around the world. *ROGUE ONE: A STAR WARS STORY* product was on shelf September 30th which was several weeks later than last year's on shelf date of September the fourth. This shift most notably impacted our U.S. POS results. Our expectation remains that our 2016 STAR WARS revenue may match the level we achieved in 2015.

In addition, YO-KAI WATCH and DREAMWORKS' TROLLS contributed to our Partner Brand portfolio gains this quarter. YO-KAI WATCH is now available in global markets, including strong initial performances in several countries.

Our DREAMWORKS' TROLLS line hit shelves in the third quarter. Working closely with DREAMWORKS throughout the development of the movie, we have a robust offering of dolls, plush, games and more in support of the global movie premieres over the next several weeks.

In closing, we have made great strides throughout 2016, including the third quarter, which historically is the largest revenue quarter of our year. Hasbro and our retailers are well positioned to deliver on what we expect to be a strong holiday season for Hasbro brands. Our initiatives are resonating with consumers and we have good retailer support. In addition, inventory availability at retail and at Hasbro is improved from this time last year.

We are very well positioned heading into 2017, when the entertainment line-up from Hasbro and our partners is among the best we have ever experienced.

I will now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

Our third quarter results highlighted the strength of Hasbro's business – across brands, geographies and our global team. Throughout 2016, we have exceeded our expectations in terms of performance, both on the top and bottom line, and we are set for a strong finish to the year.

14% quarterly revenue growth drove a 19% increase in quarterly operating profit. We grew margins while investing in our business – in innovation across our brand portfolio, in storytelling across mediums, in our consumer product global talent and in digital expertise, including projects for MAGIC: THE GATHERING and new gaming launches at BACKFLIP STUDIOS.

Over the trailing twelve-month period we generated $637 million in operating cash flow, ending the quarter with $830 million in cash on our balance sheet.

As we look to the full year, we have good momentum in our brands, including our new line supporting DISNEY PRINCESS and DISNEY'S FROZEN. In addition, we are supporting more motion pictures in the fourth quarter than last year. We have the right inventory, in the right places, both at retail and in our warehouses to support this momentum.

For the third quarter 2016 we grew revenues in each major operating segment.

In the U.S. and Canada segment, revenues increased 16%. Revenue growth in the Games and Girls categories more than offset declines in the Boys and Preschool categories. Hasbro Franchise Brand revenues grew 2%, with growth in MAGIC: THE GATHERING, NERF and TRANSFORMERS. Partner Brand revenues increased 13% in the segment, behind contributions from Hasbro's line of DISNEY PRINCESS and DISNEY'S FROZEN, DREAMWORKS' TROLLS and to a lesser extent YO-KAI WATCH. Additional Hasbro brands, including BABY ALIVE, EASY BAKE, PIE FACE and FURBY, also contributed to the year-over-year growth for the segment.

U.S. point of sale declined slightly in the quarter, given difficult comparisons to JURASSIC WORLD and a shift in timing for STAR WARS on shelf dates versus last year. POS increased in the mid-teens for the first three quarters and is positive to start the fourth quarter. Retail inventory continued to be of very good quality and has grown primarily from the addition of new initiatives.

Operating profit in the U.S. and Canada segment increased 22%, to $228.0 million or 24.4% of net revenues. Similar to prior quarters this year, higher revenues drove improved expense leverage.

International segment revenues grew 13%, including a negative $3.0 million impact from foreign exchange.

Within the International segment, the Boys, Girls and Preschool categories grew, while the Games category was flat. Franchise Brand revenues increased 4%, with growth in MAGIC: THE GATHERING, PLAY-DOH, NERF and TRANSFORMERS. Partner Brand revenues increased 30%, behind Hasbro's shipments of DISNEY PRINCESS and DISNEY'S FROZEN, YO-KAI WATCH and DREAMSWORKS' TROLLS. Hasbro brands BABY ALIVE and PIE FACE also contributed to the segment's strong performance.

Operating profit in the segment increased 17% to $133.1 million or 19.3% of net revenues. The International segment continued to generate greater expense leverage.

Through the first nine months of the year, currency has negatively impacted revenues by $49.1 million. Based on current economic trends we anticipate a potential further impact of up to approximately $25 million for the remainder of the year. Despite an improved currency translation outlook from where we began the year, the impact from currency varies by market and our global teams continue to manage the ongoing economic impact on retailers and consumers from currency devaluations in several markets around the world.

Entertainment and Licensing segment revenues increased 8% behind revenue growth in consumer product licensing and digital gaming.

Segment operating profit decreased $2.2 million, or 13%, to $14.1 million or 25.1% of revenues. Higher revenues and lower program production amortization were partially offset by investments in building our consumer products team globally and higher expenses at Backflip Studios in support of new gaming launches. Boulder Media revenue and expenses are being recorded in this segment, and were not material in the quarter.

Overall,

Operating profit increased 19% and operating profit margin gained 100 basis points versus last year. Double-digit revenue growth drove improved expense leverage for the quarter as well as year to date.   For the full year, we anticipate operating margin in line with or up slightly from last year.

Cost of sales in the third quarter declined slightly as a percentage of sales and continued to benefit from growth in Partner Brands. This growth in Partner Brand revenue also led to an increase in royalties, which at 8.0% of revenues is up 30 basis points year-over-year. We now expect royalties for the full year to be in the range of our year-to-date level of 8.1% of revenues and last year's level of 8.5%.

Program production cost amortization declined in the quarter and is running lower in 2016 than last year as we have delivered and are amortizing fewer television programs. Content development and storytelling remain core to our strategic investments and we have spent $36 million in cash on television and film production over the first nine months of the year. In addition, during the third quarter, we acquired Boulder Media to enhance our animation and storytelling expertise.

SD&A as a percentage of sales was up slightly versus last year. The increase reflected higher spending on digital programs – including MAGIC: THE GATHERING and BACKFLIP. Compensation expense increased during the quarter, and we anticipate will increase further in the fourth quarter as we true up two years of successful performance on long-term plans versus measures we set several years ago.

Turning to our results below operating profit:

Other income was $8.5 million versus $5.1 million last year. The improvement resulted from a small foreign currency translation gain this year versus a loss last year, and to a lesser extent higher interest income and growth in earnings from our share of the Discovery Family channel. On a reported basis, the third quarter 2015 included a $6.8 million gain from the sale of two manufacturing facilities. Absent the gain, other expense was $1.7 million last year.

The underlying tax rate was 26.1%, down from 27.2% last year and down slightly from 26.4% for the full year 2015.

Diluted earnings per share was $2.03 compared to EPS of $1.64 cents last year.

Our balance sheet remains strong.

Strong cash generation enabled us not only to invest in growing Hasbro, but also to return cash to our shareholders. During the third quarter, we returned $112.4 million to shareholders. $64.0 million in dividends and $48.4 million in share repurchases. We have spent $106 million on share repurchases through the first three quarters of 2016. This is in line with our full year target of repurchasing $100 to $150 million, which, as always, is subject to market conditions.

Receivables at quarter end increased 5% versus the 14% revenue growth and DSOs decreased 7 days to 78 days. Our accounts receivable remain in good condition and collections continue to be strong.

Inventories increased 36% versus last year.

- The overall quality of this inventory is good and our inventory availability has improved from this point last year.

- More than $100 million of the year-over-year increase is in DISNEY PRINCESS and DISNEY'S FROZEN, YO-KAI WATCH and TROLLS – which are all new lines for Hasbro – and for PIE FACE, which is a much bigger business this year than last.
- We are also supporting multiple films in the fourth quarter including *ROGUE ONE*. The later on shelf date, and our better inventory availability for this line, resulted in Hasbro having more inventory on our books at quarter end than last year.
- At year end, we believe we will have the appropriate inventory to support our lines, as well as new initiatives occurring early in 2017 including Disney's live action *Beauty and the Beast* film.
- Finally, our retail inventories have grown in support of these successful new initiatives and growing Hasbro brands.

In closing, we have the right brands, the right assets and the right team to deliver a successful year – and we remained committed to taking the right strategic steps to position Hasbro for 2017 and beyond.

Brian and I are now happy to take your questions.