Hasbro Third Quarter 2018
Financial Results Conference Call Management Remarks
October 22, 2018

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me this morning 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 and then we will take your questions.

Our earnings release was issued this morning and is available on our investor website. Additionally, presentation slides containing information covered in today's earnings release and call are also available 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 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.

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 and CEO:

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

The global Hasbro team is effectively working through a disruptive year. Our third quarter results reflect lost Toys“R”Us revenues in the U.S., Europe and Asia Pacific, but also showcase the progress we are making to add a broad array of new retailers, to lower retail inventory in major markets and to drive a digital-first orientation around storytelling, innovation and growth across the blueprint. The U.S. and Canada teams have advanced this strategy the furthest, and we are making progress. In the quarter, we recaptured about one-third of the U.S. and Canada Toys“R”Us revenues heading into the holiday, and we had orders for more that didn’t get shipped by quarter end. Operating profit in the U.S. and Canada segment was also up in the quarter.

While there are a number of factors effecting global markets, including an evolving retail landscape and challenging macroeconomic environments in markets like the UK and Europe, Russia and Brazil, our response to these factors is deliberate and measured to capitalize on our Brand Blueprint strategy with audiences and consumers.

Just over one year ago Toys“R”Us filed for Chapter 11 bankruptcy and put into motion a process which ultimately resulted in the rapid closing of most of their stores, including all stores in the U.S., U.K., and Australia and transitioning to new owners in select markets. In certain markets this

transition is ongoing. We continue to believe this is a near-term retail disruption that will last for the next few quarters.

Our established and differentiated Brand Blueprint strategy has enabled us to transform and we've invested in industry-leading brand-building capabilities. To best position our Company for profitable future growth, we need to continuously drive new ways of competing. We are becoming a more agile, modern and digitally-driven play and entertainment company. At this pivotal point, it is critical we have the right teams in place, with the right capabilities to lead us into the future. As we continue to transform, we took actions which impacted our global organization. We are focusing our teams on the most profitable, differentiated and strategic areas of our business while aligning our resources and costs to drive profitable growth.

Hasbro is executing robust plans for this holiday season with a broad and growing array of retailers. Following Toys“R”Us liquidation in the U.S., the third quarter was the first quarter without the retailer and it is clearly visible in point of sale at brick retail, which was down globally for Hasbro brands in the low-teens for the quarter and increased slightly through the first nine months of the year.

Looking at the U.S. data more closely, where the consumer had direct access to the brands and products they were seeking, Hasbro's online POS increased high single-digits in the third quarter, and increased double-digits over the first nine months of the year.

Hasbro has invested to establish a leading presence online. According to OneClick Retail, through the first nine months of the year, in North America, Hasbro is the market share leader on Amazon in the toy and game category.

In the U.S., Toys“R”US liquidation and store closings drove an incremental 2.5 million units sold through in the first half of this year versus a year ago and impacted the third quarter’s unit sales. However, the NPD Group data indicates that 83% of industry purchases made at Toys“R”Us during the liquidation in the U.S. were to be given away by the end of the third quarter.

In recent weeks, retailers are activating their share recapture plans for the holiday period. Many retailers set their shelves later in the quarter to begin their holiday efforts, but retailers are stepping up to capture the Toys“R”Us market share.

Hasbro’s channel strategy has enabled us to open a significant number of new doors at retail, but this also drives new requirements for our U.S. supply chain. We are working with a greater variety of retailers that have differentiated shipping requirements. Our growing retail footprint adds retailers shipping smaller quantities per truck, that take product closer to the holidays and require more carton volume than previously, including more cartons of high demand toys and games later in the quarter. In fact, Hasbro shipped more product domestically in September than ever before, and we were unable to meet all the demand within the quarter.

As a result, approximately $50 million of U.S. third quarter orders shipped in the first week of the fourth quarter. By mid-2019 we will add a Midwest warehouse to better meet demand, shorten delivery time and reduce trucking mileage to our retailers' distribution centers. We are also working closely with our retailers in new, innovative ways including sharing warehouse space to dramatically reduce delivery times.

While our U.S. retail footprint is growing, our retail inventory declined by 17% versus a year ago, and we have maintained our cost of business across retailers. We have story-led innovative brands and products to successfully support retailers and consumer demand for the 2018 holiday period, and importantly, we expect to return to growth in 2019, and future years.

Where the retail disruption has been mitigated and the retail transition moved more quickly, you can see the resilience of our business and our brands. For example, in Canada where the Toys“R”Us transition has already happened, our revenues and point of sale were up for the third quarter.

Europe and Asia Pacific are behind both Canada and the U.S. in respect to retailer share recapture and Toys“R”Us ownership transition. In Europe, as previously discussed, we began 2018 with excess inventory at retail. We are making meaningful progress, with retail inventories down over 20%, and it will take through the end of the year to complete our efforts. A rapidly evolving retail landscape, where consumers are

shopping across borders and traditional retailers are struggling, added to the challenge of right sizing our inventory. Revenues from omni-channel and online retailers are growing, but haven't yet offset the decline from Toys"R"Us and other retailers.

As our retail and consumer landscape evolves, we are building innovation across brands, price points and channels. Global revenues for several Hasbro Franchise Brands grew in the third quarter, including MONOPOLY, MAGIC: THE GATHERING, PLAY-DOH and BABY ALIVE.

Emerging Brands revenues were up 2% behind new initiatives LOST KITTIES, LOCK STARS and YELLIES, and the addition of POWER RANGERS licensing revenues.

Gaming remains a meaningful differentiated growth opportunity for Hasbro. We are leveraging our global portfolio of brands and expertise to target a broad and growing demographic of players across analog and digital platforms. In fact, in the U.S. and Canada segment, gaming revenues were up double digits in the quarter.

MONOPOLY original and the CHEATERS addition have driven growth and a strong launch of MONOPOLY FORTNITE in early October continued to reflect our fast and first to market approach. The NPD group identified MONOPOLY FORTNITE as the #1 new item in the Games Supercategory for the week ending October 6 in the U.S.

MAGIC: THE GATHERING grew in the quarter, led by *Core Set* sales and the strong story-led launch of *Guilds of Ravnica*. In addition, the team has taken important steps digitally as MAGIC: THE GATHERING ARENA moved to open beta on September 27. There has been an incredible response from players. In the first four days alone, 17 million games of ARENA were played. Retention, engagement and monetization are all above goals and streaming and viewership rates are beating our targets. The launch of open beta is just the start. The team continues investing to expand the game's markets, social and competitive features and platforms. Arena is the first in a host of new gaming and marketing initiatives for Magic, as this brand expands across digital and analog including tabletop, consoles and mobile in 2019 and beyond.

The team also delivered another quarter of revenue growth for DUNGEONS AND DRAGONS and late in the third quarter drove a strong release for an all new TRANSFORMERS Trading Card Game.

In our Partner Brands, Hasbro's toy portfolio based on Marvel franchises is having a tremendous year and delivered extremely positive results in the third quarter behind strong sales of *Avengers: Infinity War* product, as well as continued robust sales for *Black Panther* and Legends fan-focused merchandise. Product from *Spider-Man: Into the Spider-Verse* launches this month, ahead of the December animated film premiere from Sony animation. We also have new product supporting *Deadpool, Venom* and *Ant Man and the Wasp*.

In addition, Hasbro's new product line for *Marvel Rising* supports Marvel's newest animated franchise that launches exclusively at Target this month.

BEYBLADE, with its digital-first strategy, also contributed to growth in the quarter.

Star Wars product revenues declined as *Star Wars: The Last Jedi* product was on shelf in September of last year.

For the fourth quarter and holiday season, we have diverse and innovative brand initiatives rolling out globally. In partnership with Paramount, our TRANSFORMERS feature film, *BumbleBee*, will arive in theaters December 21st. Product was arriving on shelf to begin the fourth quarter and sales are off to a strong start. In the U.S. and Canada segment, TRANSFORMERS revenues in the quarter increased double-digits. Retailers are enthusiastically behind this initiative, which promises to be our most all-family, all-audience, dual gender film ever. Feedback from early audience screenings has been outstanding.

We have a significant number of innovative brand offerings arriving for this holiday season across franchise and partner brands as well as gaming. In fact, you will see Hasbro's strong representation as retailers unveil their holiday initiatives for consumers across converged retail— in stores, online and mobile, and in all forms of marketing digitally, including content-to-commerce, shop-able social content, toy books and toy lists.

To fuel our future growth, we have tremendous innovation and entertainment for 2019. This includes all new initiatives in Franchise Brands, such as product and story-led innovation for NERF, including NERF OVERWATCH and NERF FORTNITE lines; We are supporting a robust entertainment slate across many of The Walt Disney Company brands, which touch diverse demographics; and we will drive innovative gaming experiences both digitally and face-to-face. We will share more details on our 2019 plans early next year.

As the global audience and consumer landscape continues to rapidly evolve, and the retail environment continues to seismically shift, we are positioning Hasbro to profitably grow in 2019 and beyond.

I would now like to turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you, Brian and good morning everyone.

As the year progresses, our global teams continue to manage through a dynamic and challenging environment. Retail disruption, which is not limited to the impact of Toys“R”US, has complicated our efforts to clear inventory in Europe and to address challenging operating environments in other global markets, including the U.K. and Europe, Russia and Brazil.

Despite revenues lower than a year ago, our operating profit margin held up well this quarter. A combination of less favorable revenue mix, negative foreign exchange impact and steps to end 2018 with clean retail inventory offset lower royalty, advertising and administrative costs.

As Brian discussed, we continue to transform Hasbro. Based on organizational actions to ensure we have the right talent and capabilities to profitably grow going forward, we expect to record a charge of $50-$60 million in the fourth quarter of this year relating to severance. While this will result in $30-$40 million of annual savings by 2020, most importantly it will ensure we are well positioned with the right talent for success in the evolving marketplace we see ahead of us.

We remain focused on growing Hasbro over the long-term and continue investing in brands and entertainment to drive future performance. We

have also returned $422 million in cash to shareholders thus far this year through our dividend and share repurchases.

Within our segments, the U.S. and Canada segment revenues declined 7%. Toys“R”Us in the U.S. is now fully liquidated. The Canadian business was sold in the early part of 2018, and is now operating under the new ownership team. Hasbro Gaming revenues grew double-digits and Franchise Brands were up slightly. Partner Brand and Emerging Brand revenue declined in the quarter. Importantly, retail inventory is down significantly. With no U.S. Toys“R”Us shoppers this quarter, and retailer activations still rolling out, point of sale was down in the low teens for the quarter yet remains positive year to date. Absent the impact of Toys“R”Us in both periods, point of sale was up in the quarter and year to date.

U.S. and Canada segment operating profit increased 4% and operating profit margin was 24.5%. Favorable product mix and lower royalty expense contributed to the improvement in operating margin. In the third quarter of last year, we recorded $18 million of bad debt expense associated with Toys“R”Us.

Retail continues to change and last week Sears filed for bankruptcy. Sears represented less than 1% of overall Hasbro revenue last year and our bad debt exposure is immaterial as we have closely managed the account for some time.

International segment revenues declined 24% including a negative $30.3 million impact from foreign exchange. Revenue declined in each region during the quarter. Emerging Brand revenues increased, but the other Brand Portfolio categories declined.

Europe revenue was down 29%, reflecting several factors tied to the evolving retail landscape. Lost Toys“R”Us revenues contributed to the decline. The U.K. stores are closed, liquidating early in the year. France and Spain are undergoing ownership transitions, and while we aren’t doing meaningful business with them now, we look forward to working with them go forward when the transitions are completed. We are also aggressively working to lower retail inventories across the region. The team has made significant progress and will continue these efforts go forward. We believe we will work through this issue by the end of 2018. Currency negatively impacted Europe revenues by $11.3 million.

In Latin America, the political and economic environment continued to negatively impact our results, especially in Brazil. Currency devaluation had a negative $16.4 million impact on revenues, accounting for more than half of the quarter decline. Point of sale increased slightly in the quarter and is up year-to-date behind strength in Mexico.

In Asia Pacific, Toys“R”Us impacted Australia, as the retailer is no longer operating and the share recapture is ongoing. In Asia, Toys“R”Us is operating, but we have limited our shipments as the sale of the business

has not yet been completed. Asia is also facing a difficult comparison with a strong TRANSFORMERS business last year, but is poised to capitalize on the launch of *Bumblebee* in the fourth quarter and into 2019. Currency had a negative $2.5 million impact to Asia Pacific's revenues.

Across the International segment, macroeconomic factors and retailer health continue to impact our decisions around extending credit to certain retailers. While this has resulted in an improvement in our DSO, it has impacted our revenues in the near term.

International operating segment profit declined to $66.3 million. Lower revenues combined with higher costs to clear inventory drove the decline in operating profit.

Entertainment and Licensing segment revenues increased 45%. During the quarter, we signed a multi-year digital streaming agreement for Hasbro television programming. This happens every few years and we last signed such a deal in 2015. Revenue from our share of the 2017 MY LITTLE PONY theatrical film also added to the quarterly revenue increase. In addition, the adoption of the new revenue recognition standard continued to contribute to higher revenues in the segment. This standard has impacted each quarter this year as revenue is spread more evenly throughout the year.

The segment's operating profit increased 99% on higher revenues, favorable mix and lower costs.

Overall, Hasbro operating profit margin declined 10 basis points. Given year-to-date trends, we now anticipate full-year operating profit margin will decline versus a year ago. As Brian discussed, we believe we can return to profitable growth in 2019 and we are taking the steps to ensure we can grow operating profit margin over time.

Cost of sales as a percentage of revenue increased 100 basis points in the quarter. Favorable product mix from higher revenues in certain gaming brands such as MAGIC: THE GATHERING, as well as Entertainment and Licensing revenues, was more than offset by lower Partner Brand revenues, costs associated with clearing out inventory and the impact of foreign exchange. As we discussed last quarter, the loss of Toys“R”Us combined with continued pressure of higher retail inventories, primarily in Europe, is having a short-term impact on our gross margin.

Royalty expense declined in dollars and as a percentage on lower Partner Brand revenues.

Intangible amortization increased as we begin to amortize the POWER RANGERS acquisition. The increase was partially offset by other intangible assets which are now fully amortized. Due to the acquisition,

we anticipate approximately $5 million in incremental amortization expense in the fourth quarter of this year and $21 million in 2019.

Program production amortization increased as we are amortizing *MY LITTLE PONY: THE MOVIE* production expense, in addition to the delivery of digital content. Based on our current expectations, we will begin amortizing production costs associated with our funding of this year's *Bumblebee* film in the latter half of next year. Given a change in the expected timing of receipts on tax credits, we now expect full-year content spend of approximately $145-$150 million.

SD&A was down 13% and flat as a percentage of revenue year-over-year. The decline in dollars reflects lower incentive compensation expense, lower bad debt expense and a positive impact from foreign exchange translation. We continued to see higher shipping costs in the U.S. from new trucking regulations and driver shortages.

Below operating profit:

Other income decreased in the quarter. Several items contributed to this decline including a loss on foreign exchange this year versus a gain in 2017 and pension expense now being recorded in this line item. As expected, our interest expense declined year over year as we executed favorable long-term borrowing in 2017 and are using our global cash more effectively thereby reducing our need for short-term borrowings.

Our underlying tax rate, absent discrete events, was 17.6%, compared to an underlying rate of 23.5% last year and 19.9% for the full-year 2017. The lower rate reflects the benefit of U.S tax reform and a slight increase from our previous guidance due to the geographic mix of income. During the third quarter, we recorded a $17.3 million tax benefit, or $0.14 per share, related to our interpretation of U.S. tax reform guidance that was released during the quarter. We now believe our full-year tax rate will be slightly above the high end of our previous 15% to 17% range.

For the third quarter, reported earnings per share was $2.06. Adjusted earnings per share, excluding the $0.14 tax benefit, was $1.93.

Operating cash flow over the past twelve months totaled $697.3 million and we had $907 million in cash at the end of the third quarter.

In mid-June, we closed on our acquisition of POWER RANGERS and other entertainment assets from Saban Properties. At closing, we paid approximately $155 million in cash and issued approximately 3.1 million shares of common stock to Saban. We have remaining cash payments of $100 million due in 2019.

During the third quarter we returned $159.5 million to shareholders, including $80.0 million in dividends and repurchasing $79.5 million in common stock. Year-to-date repurchases total $192.3 million.

Our full-year share repurchases are expected to partially offset the shares issued in connection with the POWER RANGERS acquisition. We expect to continue opportunistically repurchasing shares in the open market.

Hasbro's balance sheet remains strong. Both our debt to ebitda and ebitda to interest ratios at 2.1 and 8.8, respectively, remain within our targets.

Receivables decreased 16% and days sales outstanding decreased to 81 days. Excluding the impact of foreign exchange, receivables declined 13%.

Hasbro owned inventory decreased $18.2 million and we are well positioned to support demand for our brands this holiday season. Absent the impact of foreign exchange, owned inventory increased 1%.

As discussed earlier, retail inventories are down significantly in the U.S. and internationally, notably in Europe.

We are positioned for a successful holiday period and to move beyond Toys“R”Us in 2019. In a rapidly changing retail environment, we are adding strategic new accounts to grow our business, while continuing to deliver innovation across the portfolio and introduce new ways to experience our brands - all positioning us to profitably grow in future years. We are tackling the challenges head on and making timely and

appropriate changes to our business. We remain focused on investing in our business for long-term growth, and are excited by the initiatives, entertainment and innovation we see in 2019 and years to come.

We will now open the call up for questions.