Hasbro First Quarter 2013
Financial Results Conference Call Management Remarks
April 22, 2013

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Our first 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 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 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.

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 we outlined earlier this year, we are executing our plan to drive long-term profitable growth across our brand blueprint globally. This plan includes heightening our focus around our core franchise and partner brands, while aligning our resources and costs to streamline our business and eliminate $100 million of expenses by 2015.

The first quarter of 2013 was a good start to the year and reflects the early results of these efforts.

We grew our business in the quarter – increasing our overall revenues 2% and our underlying operating profit 47%, absent restructuring charges. We made decisions to streamline our organization and to focus on growth around fewer brands. We are unlocking efficiencies and opportunity across Hasbro and for our brand portfolio globally.

In the quarter, the U.S. & Canada segment posted 4% revenue growth and very strong growth in profits, with an increase of 124%, absent charges.

The U.S. business grew, with reduced Hasbro and retail inventory that is of high quality, backed by solid pricing and execution. The new team is doing a tremendous job improving profitability and strong execution in partnership with our retailers. Inventories were down mid-teens at our top four U.S. retailers.

Our International segment was flat, but grew 1% absent a $3 million negative foreign exchange impact. The emerging markets posted strong double digit gains, with many countries including Brazil, China, Russia and Korea up significantly in the quarter.   Across regions, Latin America and Asia Pacific revenues both increased at double digit rates.

In Europe, the emerging markets, including Russia and Eastern Europe, remain very strong. A few developed economies in Europe have difficult comparisons with both BEYBLADE and STAR WARS last year and the Boys category was down in the quarter. However, all other categories grew and many brands including MARVEL, NERF, PLAY-DOH, FURBY, MY LITTLE PONY, and MAGIC: THE GATHERING, were up in Europe during the first quarter.

Looking at our product category performance in the first quarter, the Games, Girls and Preschool categories all posted year-over-year gains and the vast majority of our Franchise Brands grew.

In our developed global economies, we had difficult comparisons in our Boys category with both BEYBLADE and STAR WARS brands presenting challenging comparisons with the first quarter of last year. As we have discussed in the past, BEYBLADE was a very strong brand for us, particularly internationally, and continued to be significant in 2012. For 2013, we have all new product innovation and entertainment coming this fall.

Also, in the first quarter of last year, STAR WARS shipments were up in support of the theatrical release of *The Phantom Menace* in 3D. While this presents a difficult comparison, STAR WARS remains a perennial brand around the world and a priority for Hasbro. We are constantly innovating across the STAR WARS brand and we have several new initiatives launching this fall.

We are very excited about the plans Lucasfilm and Disney have for STAR WARS, across television and film. There is tremendous talent working on the STAR WARS brand and developing it for future generations. STAR WARS remains a very significant and important priority within our portfolio and we look forward to the future with this great brand franchise.

Partially offsetting the difficult comparisons in Boys, we experienced growth in MARVEL, NERF and G.I. JOE products in the quarter.

At Toy Fair this year, we shared some of the global consumer research we fielded around the Modern Boy. This research has informed the innovation and consumer experiences we have developed and are launching in 2013 for our Boys brands globally; including several new innovations across our MARVEL business.

After a tremendous year in 2012, Marvel and its studio licensees have several incredible films this year as well as all new television programming to continue building the brands globally. In support of the theatrical release, our new *Iron Man 3* product line reached retailer shelves in the U.S. just in time for Easter, and has already started hitting shelves internationally prior to the May movie release. New *Wolverine* product will be on shelf starting this summer, and *Thor: The Dark World* product will hit store shelves this fall.

Our Marvel revenues were up more than 20% in the first quarter and while the comparisons for the full year will be challenging, there is a tremendous amount of innovation in our line supporting both film and television, including our new IRON MAN 3 ASSEMBLERS and an entirely new ULTIMATE SPIDER-MAN product line based on the animated series.

G.I. Joe is another brand within Boys which grew this quarter. *G.I. JOE: Retaliation* has performed well and to date has earned more than $270 million at the global box office. Paramount has indicated they will begin working on a third G.I. JOE movie and we look forward to working closely with the studio and filmmakers. We are pleased with the strong reception to the film and interest in the brand globally.

Finally, in 2013, we've completely reinvented TRANSFORMERS across platforms, including a television series distributed globally, online and mobile games, licensed products, and a full line of new toys based on the all new TRANSFORMERS BEAST HUNTERS theme.

Moving to our Games category revenues grew 26% in the quarter. This is a great start to 2013 supported by positive point of sale trends in the category in the U.S. and in a number of markets globally.

Our franchise brand, MAGIC: THE GATHERING, continues to perform well globally, across all regions. However, revenue growth in the Games category was not solely driven by MAGIC: THE GATHERING. The re-invention of our Games business is being led by our Gaming Center of Excellence and the innovative new brand initiatives they are developing around targeted consumer groups. As a result, there were a number of brands and initiatives which grew within Games this quarter.

Boys Action Battling games, including ANGRY BIRDS STAR WARS and TRANSFORMERS initiatives, continued to resonate with consumers nearly doubling revenues in the quarter.

The re-invention of the TWISTER brand with TWISTER RAVE in our Girls gaming business drove growth again this quarter for the TWISTER brand.

Finally, we were all reminded how much a part of our lives another one of our Franchise brands, MONOPOLY, has been and continues to be. Our global “Save Your Token” campaign brought in votes from 185 countries, 10 million Facebook fans and created 2 billion impressions, driving increased revenues in the quarter with new versions of MONOPOLY due out later this year.

In our Girls category, several brands contributed to our 23% growth. Notably, FURBY continues to be in high demand where it has launched. FURBY is now also available in non-English speaking markets and selling very well. In English speaking markets, FURBY Party Rockers are at retail and our all new FURBY line will be available this fall.

MY LITTLE PONY also remains in high demand, with more than 30% revenue growth globally across categories including licensed products, and even greater point of sale growth in several markets.

Our Girls category also had positive contributions from One Direction, Care Bears and Easy Bake products.

As we continue its re-invention, our Franchise Brand LITTLEST PET SHOP did not grow in the quarter. LITTLEST PET SHOP is supported by one of the top rated shows on the HUB network in the U.S. and we will be launching television programming outside the U.S. during 2013. Our Gameloft app continues to be extremely successful and we are integrating this digital play into the physical product. We remain confident that with the investments we are making, LITTLEST PET SHOP will remain a top Girls brand globally and grow over time.

Finally, the Preschool category grew 8% in the first quarter. This reflects our focus on initiatives where we believe we can deliver differentiated innovation as well as profitable growth.

This is evident in our newest Franchise Brand, PLAY-DOH. PLAY-DOH is growing domestically and internationally. Revenues were up more than 30% in the quarter and we launched a whole new way to play with our new PLAY-DOH PLUS compound. We are also supporting great entertainment brands including Disney Princess, Marvel and Sesame Street.

Also within preschool our PLAYSKOOL HEROES line is leveraging great brands, including TRANSFORMERS and MARVEL, to deliver growth. Having launched less than two years ago, Playskool Heroes has performed extremely well, growing revenues and gaining share.

Across Hasbro, our teams are delivering the product innovation and rich story telling behind our brands and our partner brands necessary to fully leverage our brand blueprint across categories and geographies.

In closing, the first quarter was a positive start to 2013. We have a number of exciting brand initiatives launching later this year, and are encouraged by the reception to our spring initiatives and launches in key brands and categories. Our focus on executing against our brand blueprint globally guides our decisions and actions as we target long-term profitable growth for Hasbro and enhanced returns for our shareholders.

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

Deb Thomas, Hasbro CFO

Thank you, Brian and good morning.

As Brian stated, we had a solid start to 2013 and we are pleased with our first quarter results. We made gains both in revenues and profitability absent restructuring, while delivering a very strong balance sheet and generating healthy cash flow.

All three of our major operating segments grew revenues absent foreign exchange. Three of our four product categories posted higher revenues and the vast majority of our Franchise Brands grew year-over-year.

Our underlying operating profit, excluding restructuring charges, increased 47% over 2012. Our global teams are very focused on the quality of execution in our business and ensuring revenue growth also drives profit growth.

Also impacting the quarter, last year's first quarter was a fourteen week period and at that time we identified approximately $6 million of expenses associated with the extra week. This year's first quarter is a thirteen week period and while the extra week in the first quarter has an impact on total expenses, it does not tend to have a material impact on revenues. Absent the extra week and charges in both years, operating profit still grew more than 20%.

Our balance sheet was strong at quarter end with $1.1 billion dollars in cash, supported by the generation of $297.5 million dollars in operating cash flow in the quarter, and lower inventories versus last year.

While relatively small in significance in relation to our full year, our first quarter results are a good start to 2013.

Before we look at the quarterly results in more detail, I wanted to update you on our cost savings initiative. During the fourth quarter, we began the implementation of a program targeting $100 million dollars in annual savings by 2015. To date, the focus of the initiative has been on an approximate 10% reduction in our work force, including an early retirement program as well as working to ensure we have the right skill sets and talent to meet the needs of a global branded play company.

The ultimate $100 million dollars in targeted savings will come not only from work force reductions, but also strategic process improvements, facility consolidation and expense reductions, including our SKU reduction program.

During the first quarter, we recognized $28.9 million in pre-tax charges associated with this restructuring. This equates to fourteen cents per share.

Given a higher than expected participation rate in our early retirement program, we have revised our full year expected range of charges and now expect to incur charges of $30 to $35 million this year, before any potential pension charges.

This higher participation rate gives us an opportunity to further rationalize our organization and add new talent to the business, particularly in our highest growth potential areas.

We anticipate pension charges could be as much as $10 million dollars but this depends solely on whether or not participants request a lump sum payout. We will not know how many participants make this election and therefore how much the charge, if any, will be until likely the third or fourth quarter.

We also anticipate gross savings in the range of $45 to $48 million dollars for the year.

While both absolute amounts are higher than our original estimates at year end, we estimate 2013 net savings of $13 to $15 million dollars, before pension charges.

In addition to the $28.9 million dollars of pre-tax restructuring charges this year, we also had $11.1 million of restructuring charges in the first quarter 2012. The following discussion excludes restructuring charges in both periods. 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 on slides 21 through 23 of the presentation.

Looking at our segment results for the quarter:

The U.S. and Canada segment net revenues increased 4%. Growth in the Girls and Games categories more than offset declines in the Boys and Preschool categories.

The U.S. and Canada segment reported 124% operating profit growth and an operating profit margin of 11.0% of revenues versus 5.1% last year. This gain was driven by higher revenues, favorable product mix, and profit improvement in the U.S., including savings from last year's first quarter restructuring.

In the International segment, revenues were flat including a negative three million dollar impact of foreign exchange. Absent the impact of foreign exchange, International segment revenues grew 1%. A few developed economies in Europe faced difficult comparisons in Boys to 2012 and the European region declined 7% despite growth in emerging markets including Russia and Eastern Europe. This was offset by a 21% increase in Asia Pacific and a 17% increase in Latin America. In total, our emerging markets grew 34% in the quarter.

Games, Girls and Preschool all increased internationally but were offset by a decline in the Boys category.

The operating loss in the International segment increased by $1 million dollars, primarily due to the lower revenue and operating profit in Europe.

The Entertainment and Licensing segment net revenues increased 5% as we continue to benefit from higher sales of Hasbro Studios television programming.

Operating profit in the segment declined $1.3 million dollars. This decline is primarily due to the mix of revenues and reflects an increase in program amortization versus last year.

Looking at our overall expenses, cost of sales as a percentage of revenue was essentially flat year-over-year.

Total operating expenses declined 1% or $2.7 million. The decline came from lower overall costs due to a 13 week quarter in 2013 versus a 14 week quarter in 2012 and savings from work force reductions in the first quarter 2012. We also had lower royalty expense versus last year due to product mix.

These declines were partially offset by investment in innovation and consumer demand creation. Product development, advertising and program amortization each increased modestly and were essentially in line with last year as a percentage of revenue.

Moving below operating profit:

Total non-operating expense increased $6.5 million. The year-over-year increase came from foreign currency losses in 2013 versus gains in the first quarter 2012 and investment losses this year versus gains last year.

Non-operating expense also includes our 50% share of THE HUB network. For the first quarter 2013, our share in THE HUB network was a loss of $1.1 million compared to a loss of $1.8 million dollars a year ago.

Our underlying tax rate for the first quarter 2013 was 26.4% compared to an underlying tax rate of 26.0% in the first quarter 2012 and 27.0% for the full year 2012. During the quarter, we had favorable tax adjustments of $5.5 million dollars. These adjustments were not unusual, but had a significant impact on the results of the quarter given they came in the first quarter when our earnings are historically at their lowest. For the full year, this impact would not be significant and we would not anticipate calling it out in our full year 2013 results.

For the quarter, average diluted shares were 129.3 million compared to 129.6 million shares last year. Similar to last year, when we also reported a loss in the first quarter, basic and diluted shares are the same. If we had reported net earnings for the quarter our average diluted shares would have been 130.9 million versus 131.6 million a year ago.

Now let’s turn to the balance sheet, which remains very healthy:

Our business continues to generate strong cash flows from operations. During the quarter, we generated $297.5 million dollars of operating cash flow. For the trailing twelve months, operating cash flow was $547.5 million. At quarter end, cash totaled $1.1 billion dollars.

After strategic investments in our business, we continue to return cash to our shareholders through our dividend and buyback programs. Our next dividend payment, the first reflecting the 11% increase approved by the Board in February, is scheduled for May 15th.

We repurchased almost 520,000 shares during the quarter at a total cost of $20.2 million and an average price of $38.81 per share. At quarter end, we had $107.1 million left on our share repurchase authorization. Our intent is to continue repurchasing shares opportunistically against that authorization.

During the remainder of 2013, we have two royalty advances due Marvel - A $30 million dollar payment in May and a $50 million dollar payment in July. We also have our final guaranteed royalty payment of $25 million dollars due to The Hub in November.

We are evaluating the appropriate level of cash to hold domestically and outside the U.S. Our objective is to get the best return on this cash for our business and for our shareholders and we are carefully reviewing our options.

Our receivables at quarter end were up 12% and DSOs were 69 days versus 63 days last year. Last year's DSO was abnormally low due to the extra week during the first quarter 2012 allowing for greater than normal collections. Our current DSO of 69 days is more in line with historical trends for the first quarter.

Inventories declined $73 million dollars versus last year on lower inventory levels in all regions except Asia Pacific, where inventories are up to support the growth in our emerging markets including China and Korea. Compared to year end, inventories increased slightly, up $7.7 million dollars. We remain committed to tightly managing inventory levels. Overall, at Hasbro and at retail, our inventory is of high quality.

We are pleased with our start to 2013. As an organization, Hasbro is focused on delivering profitable long-term growth while driving innovation across our key brand initiatives and successfully executing our multi-year cost savings initiative. We remain focused on smart decision making and leveraging our investments in executing our global brand blueprint.

Brian and I are happy to now take your questions.