Hasbro First Quarter 2014
Financial Results Conference Call Management Remarks
April 21, 2014

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me this morning are Brian Goldner, Hasbro's 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 quarterly performance and then we will take your questions.

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. 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. 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 initiative, 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.

I would now like to introduce Brian Goldner.

Brian Goldner, Hasbro President and CEO:

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

In February at Toy Fair, we shared with you how Hasbro is creating a Revolution in Play - across geographies, consumer engagement and Hasbro Brands.

Hasbro Franchise Brands, Emerging Markets and our Entertainment and Licensing segment revenues grew year-over-year. In total, first quarter revenues increased 2%, despite Easter happening in the second quarter of 2014 versus the first quarter of 2013 and ahead of most of our major movie shipments for the year.

Geographically, the Revolution in Play is based on the premise that the emerging markets will deliver the fastest growth in our industry. Hasbro's emerging market revenues grew 15% in the first quarter.

Within the International segment, Latin America was our fastest growing region, up 17% as reported and up 27% excluding foreign exchange. All major countries within the region grew – including Mexico, as well as the emerging market countries of Brazil, Chile, Peru and Colombia.

Additionally, Europe increased 8% with growth in several mature countries, including the UK, Italy and Spain, plus strong growth in our emerging market Eastern European countries, which include Russia.

As we said in February, we are poised for improvement in the U.S. and Canada segment. The U.S. business did improve in the first quarter behind new initiatives like HERO MASHERS, continued momentum in Franchise Brands MY LITTLE PONY, MY LITTLE PONY EQUESTRIA GIRLS, NERF and NERF REBELLE, as well as movie launches including *Captain America: The Winter Soldier* out in theatres now. Several major films, notably *Transformers: Age of Extinction* and *The Amazing Spider-Man 2,* are launching in a significant way in the second quarter.

In addition, in the first quarter, Canada, Australia and France continued to present challenging economic conditions for our business.

Overall, the U.S. & Canada segment declined slightly in the quarter, International segment revenues increased 5% and Entertainment and Licensing revenues grew 13%.

Within the Entertainment and Licensing segment, we had a contribution from Backflip Studios which was not in our results during the first quarter of last year. In addition, lifestyle licensing revenues grew, driven by our Franchise Brands, in particular MY LITTLE PONY.

In 2014, we have strong retailer support, both in store and online, for Hasbro product and licensing initiatives as we drive the revolution in consumer engagement with content, licensing, and in partnership with our global retailers.

From a brand perspective, Hasbro Franchise Brands grew 15% in the first quarter, with growth in all our segments. 5 of our 7 Franchise Brands grew year-over-year – specifically, MAGIC: THE GATHERING, MONOPOLY, MY LITTLE PONY, NERF and PLAY-DOH. The remaining Franchise Brands, LITTLEST PET SHOP and TRANSFORMERS, have significant new initiatives slated for the remainder of the year, backed by strong global retailer and entertainment support.

This strong Franchise Brand performance helped deliver growth in our Boys and Girls categories.

Boys category revenues increased 2%, with growth in Marvel, NERF and SUPERSOAKER. TRANSFORMERS revenues declined slightly in the first quarter as we shifted focus and geared up for shipments tied to the movie in the second quarter. We have strong global retail support for *Transformers: Age of Extinction* product as well as licensing programs as we activate the brand globally across our brand blueprint.

Girls category revenues grew again this quarter, increasing 21% year-over-year. Our Franchise Brand initiatives for MY LITTLE PONY and the addition of MY LITTLE PONY EQUESTRIA GIRLS and NERF REBELLE delivered strong year-over-year gains for the Girls category in the quarter.

Our Games revenues declined 4%. Both Franchise Brands, MAGIC: THE GATHERING and MONOPOLY, increased. With respect to MAGIC: THE GATHERING, the timing of releases can impact quarterly performance. While the brand grew, this year's first quarter release was planned as a lighter release, with fewer cards, than the 2013 first quarter release. This change in release size had the biggest impact on the U.S. and Canada segment.

Several other Games Mega Brands grew this quarter, including OPERATION, JENGA and ELEFUN & FRIENDS. These gains did not offset declines in our Action Battling initiatives and in DUEL MASTERS, a Japanese trading card game.

Finally, Preschool category revenues declined 4%, though PLAY-DOH continued to be a strong performer globally. DOHVINCI will launch later this year, and will be reported in the Girls category. TRANSFORMERS RESCUE BOTS and MARVEL SUPER HERO ADVENTURES also grew slightly in the quarter, but were more than offset by declines in core PLAYSKOOL initiatives.

In closing, the first quarter was a solid start to the year – a year which we feel very good about from an innovation, entertainment and execution standpoint. We are focused on driving our franchise and key partner brands, growing profits faster than revenues and delivering on creating a global revolution in play.

Now, I'd like to turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

As Brian stated, the first quarter was a solid beginning to 2014. Revenues, operating profit and earnings per share increased year-over-year reflecting good momentum in Hasbro Franchise Brands and key partner brands, combined with the benefit of cost savings.

Before we review our results, please note that the first quarter 2014 as reported had a $13.5 million dollar or ten cent per share favorable tax adjustment related to discrete items. Additionally, in the first quarter 2013, we had pre-tax charges of $28.9 million or $0.14 per share, associated with restructuring and related pension actions as well as favorable tax adjustments of $5.5 million or $0.04 per share. We have included a reconciliation to reported amounts in today's release. During the rest of my discussion of our business, I will exclude these items as they do not speak to the underlying performance of Hasbro.

Looking at our segments,

The U.S. and Canada segment first quarter revenues declined slightly, down 1%. The Girls category grew but was offset by declines in the Boys, Games and Preschool categories.

Segment operating profit declined 5% in the quarter, primarily resulting from lower revenue and product mix.

In the International segment, the first quarter revenues increased 5%, with Europe growing 8% and Latin America up 17%. Additionally, emerging markets revenues increased 15% in the quarter. Boys and Girls category revenue growth more than offset revenue declines in the Games and Preschool categories.

Revenue growth in the International segment drove significant operating profit growth in the quarter as the segment posted an operating profit of $2.4 million versus an operating loss of $4.5 million last year.

Entertainment and Licensing segment revenues grew 13% in the first quarter. The segment benefited from the revenue contribution of Backflip Studios. Revenue growth in lifestyle licensing was offset by lower entertainment revenues.

Segment operating profit was $6.0 million compared to $7.0 million a year ago.

Looking at our overall expenses, we continue to make progress and remain on track toward our goal of achieving $100 million in underlying cost savings by 2015. We continue to lower our costs while investing in areas of the business to drive long-term growth, including Backflip Studios, MAGIC: THE GATHERING, and our IT and digital infrastructure.

Cost of sales as a percentage of revenue in the quarter declined and continued to benefit from improved inventory management and favorable revenue mix, including higher Entertainment and Licensing segment revenues.

Royalty expense in the quarter was close to flat with last year, but as we have discussed, 2014 is an entertainment rich year for both Hasbro and our partners.

Product development increased mainly due to the addition of Backflip Studios and incremental investments in MAGIC: THE GATHERING.

Intangible amortization increased year-over-year due to incremental expense associated with Backflip.

SD&A in the first quarter increased $7 million reflecting the items we discussed at Toy Fair including inflation, higher compensation and investments, such as Backflip and MAGIC: THE GATHERING, partially offset by cost savings.

Turning to our results below operating profit for the year:

Other income was $5.0 million versus other expense of $4.1 million in 2013. Our 50% share in the Hub Network improved to a profit of $1.3 million in 2014 versus a loss of $1.1 million in 2013. The Hub Network remains on track to achieve its plan of pre-tax profitability in 2014.

Additionally, we had a $3.4 million dollar gain from the sale of an asset, lower foreign exchange losses and improved investment returns in 2014.

The first quarter underlying tax rate declined to 26.1% versus 26.4% in the first quarter 2013, and we continue to expect our full-year tax rate to be in the range of 26 to 27%.

For the quarter, average diluted shares were 132.7 million shares compared to 129.3 million in 2013. This increase is due to the appreciation in Hasbro's stock price which resulted in higher stock option exercises. The actual amount of shares outstanding at the end of the first quarter 2014 was 130.2 million shares.

Diluted earnings per share, absent charges and the favorable tax adjustments, were $0.14 in the first quarter 2014 versus $0.05 in 2013.

Our business continued to generate strong cash flows from operations. During the quarter, we generated $242.0 million of operating cash flow.

For the trailing twelve months, operating cash flow was $345.7 million. At quarter end, cash totaled $792.2 million.

Our capital deployment commitments remain intact. Our first priority is investing back into Hasbro for the long-term profitable growth of the business. The second is returning cash to our shareholders in the form of dividends and share repurchases. Finally, we remain committed to executing against these priorities in a manner consistent with maintaining our solid investment grade rating.

In the first quarter, we returned $132.9 million to shareholders: $52.4 million in cash dividends and $80.5 million in share repurchases. At quarter-end, $444.3 million remained available in our current share repurchase authorization. Our first quarter repurchases were consistent with our stated objective to increase the pace of our share repurchases in 2014.

We have $425 million of long-term debt which is current and matures in May of 2014. Given current interest rates, our plan is to refinance all of this amount.

Receivables at quarter end increased 8% versus 2013. DSOs were 73 days compared to 69 days in 2013, reflecting the timing of collections and the mix of revenue.

Inventories increased $67.1 million versus last year ahead of our major movie launches in the second quarter. Additionally, international inventory growth was primarily in support of emerging markets.

Our inventory at U.S. retail was down slightly at quarter end, and internationally our inventory at retail is healthy. Overall, retail and Hasbro-owned inventory is of good quality.

In closing, with most of the year still ahead of us, Q1 was a solid start to 2014, with good momentum in our Franchise Brands and more major entertainment launches beginning in the second quarter.

Brian and I are now happy to take your questions.