Hasbro Third Quarter 2011
Financial Results Conference Call Management Remarks
October 17, 2011

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me today are Brian Goldner, President and Chief Executive Officer; David Hargreaves, Chief Operating Officer; and Deb Thomas, Chief Financial Officer.

Our third quarter 2011 earnings release was issued earlier this morning and is available on our website. The press release includes information regarding Non-GAAP financial measures included in today's call. Additionally, whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

This morning Brian will discuss key factors impacting our results and Deb will review the financials. We will then open the call to your questions.

Before we begin, let me 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 and strategies, costs, financial goals and expectations for our future financial performance and achieving our objectives.

There are many factors that could cause actual results and experience 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, 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.

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.

The third quarter highlights the global execution of our branded-play strategy and keeps us on the path to deliver meaningful growth in revenues and earnings per share in 2011. Not only was this a record third quarter in respect to revenues, operating profit and net earnings, there are a number of important positive trends which give us the confidence to maintain our outlook for the full year.

Three weeks into the fourth quarter, our shipments in the U.S. and Canada segment are off to a strong start, tracking ahead of last year and reaffirming our belief that the decline in the third quarter was substantially related to the timing of orders. We are all well aware that the retail landscape today requires more just-in-time inventory than before, as well as our new initiatives are only recently hitting retail shelves.

As you know, last year's holiday performance was affected by softer U.S. consumer demand, in particular in games. In the U.S., we believe we are in a stronger position than last year as we entered the fourth quarter with less inventory at retail as well as positive trends in our point of sale during the third quarter. Point-of-sale in our top 4 U.S. accounts was up 8% year-over-year in the quarter, versus being up slightly in the second quarter and down in the first quarter. This quarter's growth was driven by mid-teen percentage gains in our toy point-of-sale as well as improvement in our games point-of-sale.

Most importantly, for our consumers globally, we have a great innovative product line that delivers the value and brands consumers are seeking given the challenging economic environment this holiday season. Across all categories we have new, highly innovative, exciting products. LET'S ROCK ELMO, THE ELEFUN BUSY BALL POPPER and the NERF VORTEX are each on a number of hot toy lists for the holiday season, along with other great Hasbro toys and games including TRANSFORMERS, FURREAL FRIENDS COOKIE MY PLAYFUL PUP, SIMON FLASH, BEYBLADE, and STAR WARS. Many of these initiatives have just begun hitting store shelves in recent weeks. In total, more than 20 Hasbro toys and games are on the hot toy lists and third-party expert award lists in the U.S. and international markets this holiday season.

Internationally, our business continues to post strong results, delivering 23% revenue growth in the third quarter, 15% growth absent foreign exchange, including growth in all major geographic regions. Year-to-date the International segment revenues have grown 27%, or 19% absent foreign exchange. While the economies in Europe are facing challenges of their own, our toy and game business and the overall market have held up well.

Additionally, as you are aware, we have been investing in establishing and growing our brands globally, including a focus on the emerging markets. We are gaining market share in both mature international markets as well as emerging markets. Based on our momentum in these markets, the strength of our line and our current expectations, we remain optimistic about our international business for the full year.

Taking a closer look at our overall third quarter results, we had several Hasbro brands perform well and contribute to our overall growth. BABY ALIVE, MY LITTLE PONY, MAGIC: THE GATHERING and TRANSFORMERS, including the new KRE-O branded products, all continued their growth trends in the quarter. Additionally, shipments of the new EASY BAKE OVEN grew the brand year-over-year. SIMON and YAHTZEE brands grew with the new Flash games on shelf now and the launch of our GAME OF LIFE ADVENTURES helped extend the brand globally, particularly in Europe, and contributed to growth in the quarter.

From our license partners, BEYBLADE has continued to be a significant contributor to our growth globally. The third quarter also included more significant shipments of SESAME STREET products, including early shipments of one of the holiday's hot items, LET'S ROCK ELMO.

With respect to TRANSFORMERS, we currently believe full-year revenue for the brand will be between the levels reported during the past two movie years, specifically between the $482 million we reported in 2007 and $592 million reported in 2009. This is in line with our original 2011 plans, and despite beginning the year with carry-forward inventory, TRANSFORMERS has been a major contributor to our revenue growth during the year, posting strong shipments and point-of-sale gains versus last year with year-over-year point-of-sale trends improving since the movie launch.

Given this was the third movie that focused on the same core cast of characters we did not have the same “collector pounce” at product launch that we had in past years. However, the broad global consumer base has responded to the movie and trends have improved. In several markets, including several mature markets, TRANSFORMERS shipments year-to-date are up in the triple digits year-over-year and point-of-sale in many countries during the third quarter was also up greater than 100%. On September 30 the Blu-ray DVD was released, which helps to continue the momentum in the brand and serves as another opportunity to engage with our TRANSFORMERS consumers.

A number of our branded television shows have started to air in certain international markets, including *Transformers Prime*, which has already become one of the top-rated shows for boys on Cartoon Network in the UK and Spain. *My Little Pony* is consistently ranked in the top five shows airing on a number of networks around the world including

Cartoon Network's Boomerang channel in the UK and on Treehouse in Canada. Hasbro and its broadcast partners are equally pleased with the strong ratings performance of Hasbro Studio's other shows, including *G.I. Joe Renegades, The Adventures of Chuck & Friends* and *Pound Puppies*.

Importantly, early results indicate that our shows are having a positive impact on point-of-sale trends. MY LITTLE PONY has returned to growth in 2011 with point-of-sale up in the U.S. and Canada as well as recently in the UK following the first airing of programming. In the UK, TRANSFORMERS point-of-sale has also increased in the weeks following the recent launch of programming. These are very encouraging signs which speak to the importance of television to drive our brands in the international markets.

I am pleased to report that currently we have closed deals which will enable Hasbro Studios shows to air in substantially all of our markets and every major sales territory, including across Europe, Latin America and Asia Pacific. This represents the airing of our TV shows in 142 countries globally. These include a majority of the primary and secondary international markets including Canada, UK, Germany, Italy, France, Spain, Scandinavia, Singapore, Hong Kong, Korea, China, Mexico and Brazil. Three-quarters of the major markets have signed up for 3 or more of our first season shows including *My Little Pony*, *Transformers Prime, Pound Puppies*, and *The Adventures of Chuck* *and Friends*. Hasbro Studios anticipates closing further deals in the coming months. The Studio also completed production on its first international gameshow format based on our hit series "*Family Game Night*," which was produced for the "Boing" TV network in Spain. This show began airing in early October.

In this third quarter the Hub delivered its best ever quarterly performance in Kids Total Day among all key target demographics.

The Hub's third quarter 24% ratings growth from the prior quarter among Kids 2-11 was the largest of any kid cable network. In fact, the momentum has continued. On Saturday, October 8, the network posted its best-ever Saturday night, out-delivering several competitive networks against several demos in key time slots.

Hasbro Studios branded programming continues to play a key role in garnering ratings growth for the network with *Pound Puppies, Family Game Night, My Little Pony Friendship is Magic*, and *Transformers Prime* among the top 5 shows on The Hub.

In motion pictures, 2011 boasts a record year for *Transformers: Dark of the Moon*, with over $1.1 billion at the box office making it the fourth highest grossing film of all time, and two great films from Marvel, *Thor* and *Captain America: The First Avenger*. 2012 is another strong year for movies backed by Hasbro's toys, games and licensed merchandise. *Battleship* will be a major initiative for Universal in 2012, premiering internationally in April and in the U.S. on May 18.

Additionally, the second film in the G.I. JOE franchise from Paramount will be in theatres on June 29th. Our partners also have a tremendous slate of films for 2012 including in February, *Star Wars* Episode 1 in 3D from Lucasfilm; In May *The Avengers* from Marvel and Disney and in July *The Amazing Spider-Man* from Marvel and Sony.

As we build our core brand and new brand franchises beyond 2012, we continue to actively develop a number of additional Hasbro films with great writers and partners including MICRONAUTS, OUIJA, CANDYLAND, RISK, STRETCH ARMSTRONG, CLUE and MONOPOLY.

In the second quarter, we announced the creation of our Center of Excellence for Hasbro Games in Rhode Island to help accelerate our growth in this important category. We had a small amount of expense related to establishing this center during the third quarter, which Deb will speak to, but more importantly we are well underway in re-imagining and re-igniting our games business.

You may recall several areas of focus we discussed with you last quarter. First, we are driving integrated, innovative gaming experiences for traditional face-to-face gaming for both on and off the board formats. We are also driving new experiences in video, digital and online gaming. We have had success with a number of brands over the last few years, but we are seeking to accelerate these efforts in future years.

Second, throughout 2011, we have worked closely with our retail partners on the merchandising and promotion of games following the softer holiday season in 2010. We believe retailer plans for 2011 will have a better impact than last year and are encouraged by the efforts and early results behind our gaming brands and the category.

In addition, we told you our promotional and advertising execution in 2010 fell short. This year, we made a number of media-focused changes designed to make games fun and relevant for kids again. Hopefully by now you have seen some of our television ads for brands like MONOPOLY ELECTRONIC BANKING. These ads are more focused on our consumer target as well as more insightful and culturally relevant for this audience. Early indications are they are having a positive impact at retail. The fourth quarter is extremely important in the games category in the U.S., as more than 50% of consumer purchases for Hasbro games traditionally occur in the final six weeks of the year.

Where we stand today, heading into the holiday season, is as follows: our games and puzzles category shipments have improved from the first two quarters; at the end of the third quarter, U.S. retailers have reduced game inventories in the mid-teens as a percent; and we have a great line of new and re-imagined games on shelf which are reacting positively to new advertising and promotional activities. We have grown our overall Hasbro net revenues this year despite lower shipments in the games and puzzles category to date, and we feel better about our execution and retailer merchandising planned for games this holiday season versus 2010.

We plan to provide more details about our gaming efforts as well as an update on our business and strategy at our annual Investor Day we are hosting on November 9 here in Rhode Island.

In summary, we feel that we have the right elements in place to deliver meaningful growth in revenues and EPS this year, including great brand initiatives, encouraging point-of-sale trends, appropriate levels of inventory, strength internationally, an improving trend in the U.S. and the team to execute our plan globally. These investments we have undertaken, which are focused around the globalization of our business, are driving growth and unlocking leverage in our business for the long term, setting the stage for a strong 2011 and growth in future years.

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

Deb Thomas, Hasbro CFO

Thank you Brian, and good morning.

In the third quarter Hasbro delivered growth in revenues and earnings driven by strong international performance, incremental leverage from our investments and solid execution. As evidenced by our third quarter stock repurchases, we remain confident in our business over the long-term and are committed to returning cash to shareholders.

Net revenues in the quarter were $1.38 billion, up 5% from last year. Foreign exchange had a positive $37.1 million impact on net revenues for the quarter. Excluding the impact of foreign exchange, net revenues grew 2%.

Operating profit grew 4% for the quarter to $248.1 million dollars or 18.0% of revenues, versus $237.8 million or $18.1% in 2010. As outlined in our second quarter earnings call, we incurred additional expense in the third quarter related to establishing our Center of Excellence for Hasbro Games here in Rhode Island. In total, during the third quarter, there was an incremental $1.8 million of pre-tax expense, which equates to one cent per diluted share. Excluding this cost, EPS in the quarter were $1.28 per share.

Year-to-date we have recorded $15.0 million of pre-tax expense or $0.7 per share related to severance, relocation and related costs.

Looking at our segment results for the third quarter 2011:

The U.S. and Canada segment net revenues were $764.6 million, down 7% versus $825.5 million last year. Growth in the Preschool category was offset by declines in Boys, Girls and Games and Puzzles.

The U.S. and Canada segment reported an operating profit of $128.8 million or 16.8% of revenues. This compares to $158.8 million, or 19.2% of revenues in 2010. The decline in operating profit is primarily the result of lower revenues in the quarter.

As we look at the International segment we have made important investments in people, facilities, marketing, and systems over the past several years. We are beginning to see the benefits of these investments in our results through strong revenue growth and operating margin improvement.

Net revenues in the International segment increased 23% to $563.3 million versus $458.9 million in 2010. Absent a positive foreign exchange impact of $35.2 million dollars, net revenues in the International segment grew 15%. The results in this segment reflect growth in all major geographic regions, including the emerging markets, as well as growth in the Boys category which more than offset slight declines in the Games and Puzzles, Girls and Preschool categories.

Operating profit in the International segment grew 42% to $100.7 million, or 17.9% of revenues, compared to $70.8 million, or 15.4% of revenues, in 2010. Again this quarter we reported strong operating profit improvement in the International segment which was driven by higher volume in the quarter and greater leverage of the ongoing investments I spoke to earlier.

The Entertainment and Licensing segment net revenues increased 69% to $46.3 million compared to $27.5 million in 2010. Revenue in the Entertainment and Licensing segment increased based on sales of licensed product associated with *Transformers: Dark of the Moon*. Additionally, entertainment-based revenues increased from both television distribution and movies, including a onetime payment of $5 million from Universal Studios.

For the third quarter, the Entertainment and Licensing segment reported an operating profit of $15.3 million dollars compared to $5.9 million in 2010. Higher revenue in the quarter more than offset the incremental year-over-year investments in global licensing talent and our on-line initiatives. As we mentioned during our second quarter earnings call, our quarterly run rate of fixed expenses in this segment is approximately $16 million dollars. Despite the improvement in operating profit in the quarter, we are still in the early stages of reaching the full earnings potential of this segment.

Now let's look at earnings:

For the third quarter 2011, we reported net earnings of $171.0 million dollars or $1.27 per diluted share compared to $155.2 million dollars or $1.09 per diluted share a year ago. Excluding the costs outlined earlier associated with our Center of Excellence for Hasbro Games, earnings per share were $1.28.

For the quarter, average diluted shares were 134.9 million compared to 141.7 million last year.

Cost of sales in the quarter was $599.5 million or 43.6% of revenues, versus $591.6 million, or 45.0% of revenues in 2010.   This improvement resulted primarily from favorable product mix, including higher sales of royalty-bearing products and Entertainment and Licensing segment revenues. Year-to-date, cost of sales is 42.1% versus 42.4% in 2010. We continue to target cost of sales in the 42% range for the full year 2011, which positions us to achieve our traditional gross margin in the 58% range.

Operating profit margin in the quarter was 18.0% of revenues compared to 18.1% of revenues in the third quarter 2010.

2011 includes a higher level of spending related to our investments in key growth areas including international expansion, entertainment and licensing as well as product innovation. These investments are driving growth in our business and afford us the opportunity to further grow revenues and improve returns in our business over the long-term. With the typical pattern of higher revenue late in the year, we are beginning to see the leverage from these investments which we did not see in the lower revenue first and second quarters.

In the quarter, advertising of 9.5% of revenue declined from 10.2% in 2010 consistent with our expectation that given the strong entertainment slate in 2011, full-year advertising would be at the lower end of the 10 to 11% of revenue range.

Royalties grew in the quarter, and represented 7.9% of revenues, as brands such as BEYBLADE and TRANSFORMERS continued posting strong growth.

Program production cost amortization in the quarter was $7.8 million, versus $5.0 million last year. Year-to-date it is $18.1 million and we continue to expect full-year program amortization to be in the range of $35 to $45 million.

SD&A in the quarter included $1.2 million of costs associated with our games action. For the full year, we expect SD&A to be at or below 20% of revenues including the costs associated with our games group. Absent the incremental expense associated with establishing Hasbro's Center of Excellence for Games, we continue to expect SD&A to be below 20% for the full year.

Moving below operating profit:

Other expense, net, for the quarter totaled $4.1 million compared to other income, net, of $3.0 million a year ago. The year-over-year change was primarily the result of a gain of $4.9 million recognized in 2010 from the sale of intellectual property.

Additionally, our 50% share of The Hub is included in this line on the P&L. For the third quarter, our share of the earnings in The Hub was a loss of $1.5 million compared to a loss of $874 thousand in the third quarter 2010.

Our underlying tax rate in 2011 was 25.1% compared to an underlying tax rate of 28.8% through the third quarter of 2010. This lower rate reflects a greater percentage of earnings coming from our International business and is consistent with our current expectation for the full-year tax rate.

Now let's turn to the balance sheet:

At quarter end, cash totaled $187.0 million compared to $497.9 million a year ago. Operating cash flow for the past twelve months was $366.9 million and includes $81.6 million in television programming costs over the period.

During the third quarter 2011, we repurchased a total of 5.6 million shares of common stock at a total cost of $211.0 million and at an average price of $37.74 per share. In the first three quarters of 2011, the Company repurchased 9.4 million shares at a total cost of $386.7 million and at an average price of $40.97. At quarter end, $263.5 million remained available under our current share repurchase authorization.

The quality of our receivables portfolio remains good and receivables at quarter end were $1.26 billion, up 4 percent compared to $1.21 billion last year. This reflects the 5 percent growth in revenues and an impact from foreign exchange.

DSO's were 82 days, down 1 day versus last year.

Inventories at $518.9 million compared to $468.0 million a year ago and $426.9 million at the end of the second quarter. This reflects the growth in our business globally and our incremental initiatives this holiday season. Nearly 70% of the year-over-year increase is related to inventory supporting our International segment revenues.

Depreciation and capital expenditures in the quarter were $36.4 million and $20.6 million, respectively.

We continue to be confident in our ability to deliver meaningful growth in revenues and earnings per share in 2011. The investments we have made are driving growth in our business, not only this year but in future years as well when we anticipate generating greater returns on these investments. Today, Hasbro’s financial position is healthy and we are delivering against our long-term strategy.

As Brian mentioned, we look forward to speaking with you in more detail about our business and our plans on November 9 when we host our annual Investor Day.

Brian, David and I are now happy to take your questions.