Hasbro Third Quarter 2015
Financial Results Conference Call Management Remarks
October 19, 2015

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.

Today's discussion will exclude from the third quarter 2015 a pre-tax gain of $9.9 million or $0.06 from the sale of manufacturing operations and from last year’s third quarter a pre-tax charge of $11.6 million or $0.06 per diluted share related to the restructuring of the Company’s investment in its television joint venture. Both are being excluded as they do not speak to the underlying performance of Hasbro. A reconciliation to reported amounts is included in the earnings release and presentation accompanying this call.

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, the potential impact of foreign exchange translation, costs, our 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 Chairman, President and CEO:

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

The execution of our Brand Blueprint is delivering underlying growth across brands and geographies. As evidenced by our gains in market share and consumer takeaway this year, our teams are successfully "Creating the World's Best Play Experiences" for consumers around the world despite the challenging currency environment.

Underlying revenues grew 9%, but the growth was offset by a negative $132 million impact from foreign exchange. The strength of consumer demand was evident across our segments. The U.S. & Canada segment increased 6% and the International Segment grew 14%, both excluding the negative impact of foreign exchange.

The emerging markets continued to post double-digit growth absent FX. While the economic environments in these markets are challenging, we continue to believe in the growth opportunity in these strategically important countries, over both the short- and long-term.

Consumer demand for our brands has remained very strong throughout 2015, with many emerging and developed markets, including the U.S., UK and Germany, posting double-digit point of sale gains this quarter. This demand was evident across categories. In the U.S. and UK, point of sale increased double digits in the Boys, Games, Girls and Preschool categories. In several countries point of sale also grew in all four categories. Retail inventories are well positioned to support demand for the holiday season, with increases in inventory focused on new initiatives and growing brands.

We continued to see strong demand for Hasbro Brands. Absent foreign exchange, Hasbro Franchise Brands increased 4% in the third quarter, with NERF, PLAY-DOH and MONOPOLY posting the largest revenue increases. Over the first nine months of the year, Franchise Brands were up 8% absent FX. TRANSFORMERS was down given the difficult comparison, and LITTLEST PET SHOP was flat, despite growth in the U.S. The other five Franchise Brands each reported growth in constant currency in the nine month period.

NERF is having another outstanding year, with strong innovation driving the core as well as new initiatives, including NERF MODULUS and RIVAL, both off to a strong start.

PLAY-DOH'S creative play continues to appeal to global consumers. We celebrated the first ever World PLAY-DOH day on September 16th and we are supporting new fall initiatives including Crazy Cuts and Cupcake Celebration.

The growth in these brands helped offset the decline in TRANSFORMERS. Last year, the brand benefited from the *TRANSFORMERS: AGE OF EXTINCTION* film.

We continue to plan for the future of the TRANSFORMERS franchise in all forms of entertainment, including movies, television and digital expressions. *TRANSFORMERS ROBOTS IN DISGUISE* is airing on Cartoon Network in the U.S. and many international markets, and *TRANSFORMERS RESCUE BOTS* is also airing on networks around the world.

Last quarter we spoke with you about the incredibly talented group of writers led by Akiva Goldsman who were charged with plotting out the next ten years and beyond of theatrical storytelling around TRANSFORMERS. While Paramount has yet to formally announce our next film, we are excited about the vast potential of the work which came out of the writers' room.

MY LITTLE PONY demand remains strong around the world, with positive point of sale trends for *MY LITTLE PONY FRIENDSHIP IS MAGIC* products and a new PLAYSKOOL FRIENDS line for preschoolers. The *EQUESTRIA GIRLS FRIENDSHIP GAMES* entertainment premiered last month on Discovery Family with good ratings that beat last year's *Rainbow Rocks* special in several key demographics.

MAGIC ORIGINS was released in the quarter and was the biggest summer set release in MAGIC: THE GATHERING'S history. In addition, in September, the global Prerelease for the *Battle for Zendikar* set previewed at thousands of core hobby stores around the globe, and was the best-attended Prerelease in Magic's 22-year history.

Adjusted for the negative impact of foreign exchange, MAGIC: THE GATHERING revenues have increased over the first nine months of this year versus last year. Demand and interest are at all-time highs and we continue to invest to unlock the full potential of the brand.

In addition to our Franchise Brands, 2015 is an impressive year for our Partner Brands, with multiple global box office successes this year already and one major film yet to come.

Force Friday was held on September 4 and marked the global retail launch of *STAR WARS: THE FORCE AWAKENS* product. Fans around the world turned out and Hasbro played a major role in this unprecedented event, from the global unboxings of product to record setting Midnight Madness events at retail. The franchise is as vibrant as ever, spanning demographics and bringing in new consumers. *Star Wars* has the potential to become increasingly global, much as Marvel has become as part of The Walt Disney Company.

Retailers and consumers have been very supportive of Hasbro's *Star Wars: The Force Awakens* line, and consumer takeaway is off to a strong start. Hasbro's BLACK SERIES action figures and multiple lightsabers are on the top of consumer buying lists.

During Force Friday week, according to NPD, Action Figures and Role Play were 42% of the dollars spent in the U.S. Hasbro's BLACK SERIES Figures were the top selling *Star Wars* item for that week in the U.S. Total Hasbro *Star Wars* retail sales to date through September 26 have significantly outpaced the total *Star Wars* retail dollar growth in the U.S. and the UK, of note these are the only two markets where we have early data.

The December 18th premiere of the film is still two months away and new *Star Wars* items from Hasbro will continue to hit retail shelves for the remainder of the year and throughout 2016.

In addition to *Star Wars*, the Marvel brand is performing very well this year and in the quarter we benefited from initial shipments of PLAYMATION MARVEL'S AVENGERS.

Jurassic World also continued to contribute to year-over-year growth.

The third quarter also marked the on shelf date for DISNEY'S DESCENDANTS. DESCENDANTS premiered July 31st on Disney Channel in the U.S. and Canada and will continue to roll out around the globe this fall. Point of sale has been strong for the launch.

During the quarter we completed the sale of our East Longmeadow, MA and Waterford, Ireland manufacturing operations to Cartamundi. While this provided a small gain in the quarter, importantly it secured a valued manufacturing partner for our gaming efforts. Going forward, our team's expertise will be focused on building global gaming brands.

We have a robust games program for the holiday, including a number of new initiatives. MONOPOLY HERE & NOW features all new properties voted on by fans this spring, and internet sensation PIE FACE is launching globally and off to a strong start in all major markets. We also have a number of entertainment-led games, including games based on MINIONS, MARVEL'S AVENGERS, *STAR WARS: THE FORCE AWAKENS* and DISNEY'S FROZEN.

Games category revenues absent foreign exchange were essentially flat in the quarter and increased 3% year to date. Consumer demand has been strong and point of sale trends are up double digits in several markets. Our retail merchandising approach this holiday is more closely aligned with the timing of consumer demand. As a result, shipments have shifted later in the year.

In 2015, we are operating in a challenging and competitive marketplace. Succeeding in today's environment requires not only great brands, but a stronger and more complex than ever connection with the consumer. Our global teams are navigating a year with unprecedented currency challenges, a dynamic demand environment and one of the most diverse brand portfolios and entertainment slates we have ever supported. As a result, this holiday season we are delivering tremendous innovation, engaging with consumers across mediums and telling compelling stories around the world.

Later this week, in partnership with Universal, is the theatrical premiere of JEM & the Holograms. Through this live action film and a trend-right licensing program focused on fashion and beauty, a whole new generation of fans will be introduced to JEM. We continue to incubate and develop new brands such as JEM in addition to the further development of our Franchise and Partner Brands.

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

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

Over the first three quarters of the year, we drove growth in constant currency across brands and geographies, good profitability and strong cash generation, despite the challenging economic environment in a number of our international markets. Year to date, foreign exchange has negatively impacted revenues by $266 million and operating profit by $62 million, and we expect it will continue to be a difficult comparison going forward.

In the third quarter alone, foreign exchange impacted revenues by a negative $132 million and operating profit by a negative $33 million. Approximately 18% of the top line impact fell to net earnings in the quarter. Pricing and hedging programs helped offset some of this negative impact.

Even with this challenge, we've generated $497 million in cash over the past twelve months and ended the quarter with $551 million of cash on the balance sheet. While underlying profitability has grown, we continued to strategically invest in growing our brands and improving the efficiency of Hasbro, while returning excess cash to shareholders. Through the first nine months of the year, we returned $241 million through our dividend and share repurchase program.

Looking at our segments for the third quarter,

Revenues in the U.S. and Canada segment increased 5%. Growth in the Boys and Preschool categories more than offset a decline in the Games and Girls categories. Growth in Franchise Brands NERF, PLAY-DOH, and LITTLEST PET SHOP along with shipments of *STAR WARS*, JURASSIC WORLD and DISNEY'S DESCENDANTS more than offset declines in TRANSFORMERS, FURREAL FRIENDS and FURBY.

Consumer demand in the U.S. remained strong, with point of sale increasing double digits across all product categories. Given the departure of Target in the region, Canada point of sale was negative. Additionally, foreign exchange had a 1% negative impact on the segment revenue for the quarter.

Operating profit in the U.S. and Canada segment increased 10% to 23.3% of revenues. Higher revenues more than offset higher expenses, including our continuing investment in MAGIC: THE GATHERING ONLINE.

International segment reported revenues declined 6 percent.

Growth in the Boys and Preschool categories was more than offset by declines in the Games and Girls categories. Franchise Brands PLAY-DOH, NERF and MONOPOLY along with Partner Brands *STAR*

WARS, JURASSIC WORLD and DISNEY'S DESCENDANTS, were positive contributors to the quarter. These gains were more than offset by declines in a number of brands including TRANSFORMERS, FURBY, MY LITTLE PONY and LITTLEST PET SHOP.

Absent a negative $126.7 million impact of foreign exchange, International segment revenues grew 14% and the emerging markets grew approximately 12%. $74.4 million of the foreign exchange impact was in Europe, $44 million in Latin America and $8 million in Asia Pacific. Absent FX, revenues in Europe grew 15%, Latin America increased 14% and Asia Pacific was up 9%.

Reported operating profit in the International segment declined 2% versus the 6% decline in revenues, but increased to 18.6% of revenues. Absent foreign exchange, operating profit increased 14%.

Finally, revenues in the Entertainment and Licensing segment were down 2 percent versus 2014. The decline in revenue was primarily driven by lower TRANSFORMERS revenues in the segment the year after the movie.

Operating profit increased to $16.2 million. Intangible amortization was lower as certain digital gaming rights were fully amortized in the second quarter 2015. In addition, last year operating profit was negatively impacted by the acceleration of certain programming amortization costs.

Turning to overall expenses for Hasbro,

As anticipated, cost of sales in the third quarter was favorably impacted by product mix, in particular higher margin, royalty-bearing product revenues. In total, cost of sales declined to 39.4% of revenues versus 41.0% in 2014. Pricing and favorable hedges have helped us offset the impact of currency in the first nine months of the year.

Product mix also drove higher royalties, which grew to 7.7% of revenues for the quarter and for the first nine months of the year.

On a combined basis, cost of sales and royalties were slightly more favorable than last year as the improvement in cost of sales was nearly entirely offset by higher royalties. As we stated last quarter, we expect this trend of lower cost of sales and higher royalty expense to continue for the remainder of the year.

Product development increased from last year to 4.4% of revenues, reflecting our investments in the DISNEY PRINCESS and *FROZEN* properties ahead of our 2016 launch. We continue to expect full-year 2015 product development to be slightly above 5.5% of revenues.

Advertising declined to 9.7% of revenues, reflecting the entertainment-backed mix of revenue in the quarter.

Intangible amortization declined $3.8 million. In the second quarter 2015, we recorded the final quarter of amortization associated with digital gaming rights we reacquired in 2005 and 2007. We anticipate full year amortization will be approximately $44 million.

SD&A increased 3% in the quarter to 17.0% of revenues. This increase continued to be the result of higher equity compensation, higher depreciation and continued investments in our business including new systems and the MAGIC: THE GATHERING digital platform. These increases were partially offset by favorable foreign exchange. We continue to believe that SD&A will be higher in 2015 versus last year. Through the first nine months, SD&A on an adjusted basis has totaled 22.5% of revenues versus 21.6% in 2014.

Turning to results below operating profit:

On an adjusted basis, other expense for the quarter was $1.7 million compared to $4.2 million in 2014. Increased profitability in our 40% share of the operating income from the Discovery Family Channel was the primary driver of the year-over-year improvement.

On a reported basis, $6.8 million of the gain from the sale of our manufacturing operations was recorded in this line during the third quarter, whereas an expense of $12.9 million was recorded last third quarter associated with the restructuring of the investment in our joint venture television network.

The third quarter underlying tax rate was 27.2% versus 27.8% in 2014. We expect our full-year underlying tax rate to be in the range of 26.5% to 27.5%, reflecting continued higher anticipated earnings in the U.S.

On an adjusted basis, diluted earnings per share for the quarter were $1.58 versus $1.46 in 2014.

We returned $83.5 million to shareholders in the quarter - $ 57.5 million in dividends and $26.0 million in share repurchases.

Receivables at quarter-end were up 6%, and DSOs were 85 days, up 5 days from last year. In addition to a DSO increase from greater revenue in markets with longer terms, two days of the DSO increase were due to a delay in the timing of collections on our U.S. direct import business. Much of this has now been collected, and we do not expect this to occur again in the fourth quarter. Our accounts receivable are of good quality, with 94% at the end of the quarter currently or not yet due for payment compared to 96% a year ago.

Inventory decreased $52 million versus last year. Excluding the impact of the sale of our manufacturing operations and the impact of foreign exchange, inventories were up approximately $34 million. With the inventory on hand at Hasbro and at retail, we are well positioned to meet anticipated demand for the upcoming holiday season while managing our inventory risk.

The first nine months of the year have set us up well for the holiday season. We have momentum in our brands, a robust entertainment slate and a number of new holiday initiatives to drive our business around the world. We are also making the necessary investments to continue the execution of our strategy and to build the competencies we need as an organization to continue profitably growing our business over the long term.

Brian and I are now happy to take your questions.