Hasbro Second Quarter 2016
Financial Results Conference Call Management Remarks
July 18, 2016

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 second 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.

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, President and CEO:

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

Through the execution of our Brand Blueprint, the Hasbro team is building brands – across toys and games, digital gaming, storytelling, entertainment and consumer products. These efforts support our mission of *Creating the World's Best Play Experiences*, and are delivering growth in our business. Second quarter revenues increased 10% and operating profit grew 12%. Each major segment grew revenues <u>and</u> operating profit. All four product categories increased revenues. Consumer takeaway continued to grow and we are making investments to enhance our talent and capabilities around the Brand Blueprint.

Last week we significantly enhanced our animation capabilities with the acquisition of Boulder Media. Boulder is a leading animation studio based in Dublin, Ireland. This 150-person team is creating award-winning content for networks around the world. We are very excited to have Boulder join Hasbro as we build a world-class team in storytelling and content creation. The acquisition is not expected to have a material impact on our 2016 financial results, but strategically it reflects our mindset of investing in capabilities around the Brand Blueprint.

Hasbro Franchise Brands increased 3% overall, or 5% absent FX, with double-digit growth from both NERF and PLAY-DOH. Revenues from our Partner Brands increased 15%, led by STAR WARS and the addition of DISNEY PRINCESS and DISNEY'S FROZEN. These brands and future launches, including the introduction of FURBY CONNECT, DreamWorks' *TROLLS* and product supporting the December release of Lucasfilm's *Rogue One: A Star Wars Story*, position us well heading into the fall and holiday season.

For the quarter, we grew across geographies, with 11% net revenue gains in both the U.S. and Canada segment and the International segment. Emerging market revenue increased 5% as reported and 13% absent FX.

Europe grew 23% in the quarter, including a 25% or greater increase from the UK, France, Germany, Italy, Spain and Russia. While the UK Brexit vote has created some near-term uncertainty and negatively impacted its currency, we have positive momentum in both the UK and in Europe heading into the second half of the year. To date, we have not seen a negative impact on our business.

Overall, global point of sale increased 6% in the quarter, with growth in the Boys, Girls and Games categories. For the first six months of the year, POS is up 17%.

According to industry and Hasbro estimates, with data available through May, we continued to gain share in nearly every major market. In total, we increased our share by approximately 1.2 percentage points.

Our portfolio is well positioned for the remainder of 2016 and future years. NERF and PLAY-DOH have continued to deliver strong growth. Several other Hasbro Brands contributed to the gains, including BABY ALIVE, FURREAL FRIENDS and EASY BAKE, as well as several games brands including PIE FACE, YAHTZEE and BOP-IT.

MY LITTLE PONY declined slightly in the quarter as we transition elements of our toy line. Over the past five years, content and innovation has propelled this brand in both games and toys and consumer products.

MY LITTLE PONY FRIENDSHIP IS MAGIC season six is currently airing around the world and our fall product line features the core cast inspired by the locations they visit. MY LITTLE PONY EQUESTRIA GIRLS mini dolls have performed very well, exceeding our expectations, and are helping offset difficult comparisons to a year ago.

This leads us to next year, when on October 6, 2017, *MY LITTLE PONY: THE MOVIE* will hit theatres with an all-star cast and global distribution from Lionsgate. The film introduces new characters, new worlds and new play experiences for the MY LITTLE PONY fan.

TRANSFORMERS is also driving a significant business supported by both television animation and theatrical films. The second season of *TRANSFORMERS ROBOTS IN DISGUISE* is airing on *Cartoon Network* in the U.S. and on networks around the world. TRANSFORMERS story is being further developed by an all-new digital streaming series in partnership with Machinima kicking off in August and aligned to when our toys and consumer products become available.

TRANSFORMERS revenue is down versus last year, but we have a rich content and product line for the year and clearly a strong entertainment calendar and immersive stories and characters moving forward. *TRANSFORMERS: The Last Knight* is slated for release by Paramount on June 23, 2017, with two additional TRANSFORMERS films planned for 2018 and 2019.

In addition, *TRANSFORMERS EARTH WARS*, the first major Hasbro branded game from Backflip Studios, was released on June 2. With over 3 million downloads in the first month, it quickly rose into the top 100 grossing games in the U.S.

Through investment in our in house capabilities and expansive industry leading partnerships with the best gaming companies across platforms, Hasbro's digital gaming presence continues to grow. With millions of daily active users, consumer spending on Hasbro branded mobile games increased over 80% in the first half of 2016 versus the first half of last year. One example of strong year-over-year growth is our YAHTZEE with Buddies social dice game from Scopely.

Our face-to-face gaming business had a very good quarter – behind several brands and play patterns.

PIE FACE remains a top selling game in many markets and point of sale is extremely strong. PIE FACE SHOWDOWN, which brings the PIE FACE gameplay to a whole new level, will be at select retailers in August and will be widely available in Q4. In addition, as we deliver gaming for all platforms, PIE FACE is being developed as a standalone mobile game for play on Apple and android devices, and for living room play on Apple TV.

By responding quickly and bringing games to market in only a few months, we are capturing the excitement created by social media in our face-to-face gaming business. Hasbro's newest game identified through our social listening expertise is SPEAK OUT. Available this fall, the game captures the excitement around mouth piece challenge videos.

In addition, on July 22, MAGIC: THE GATHERING will launch *Eldritch Moon*, the second set within the *Shadows Over Innistrad*. Shadows is off to a strong start, as global prerelease event attendance matched our previous record, and our Launch Weekend event had the highest global participation ever.

MAGIC revenues grew in the International segment in the second quarter, with strong metrics in all regions. However, planned set release timing shifted this year and created uneven comparisons versus the first half of last year. Despite this shift, we expect 2016 to be the 8th straight year of revenue growth for MAGIC: THE GATHERING. Its popularity remains unmatched within the strategic trading card genre and we are successfully expanding global engagement and advancing the game into new formats, including e-sports and digital.

Within Partner Brands, STAR WARS and DISNEY PRINCESS and DISNEY'S FROZEN represented the largest increases in the quarter.

STAR WARS demand remains very strong. During the third quarter we will begin shipping product in support of the December release of *Rogue One*. However, the third quarter last year marked the initial shipments for new STAR WARS products.

DISNEY PRINCESS and FROZEN lines are selling very well both in fashion dolls and the small doll line. We also have plans to launch two new properties this year: *ELENA OF AVALOR* later this summer to support the new Disney Channel animated series and *MOANA* in the fourth quarter tied to the theatrical release.

The transition to our DISNEY PRINCESS dolls product has been smooth overall and we look forward to the second half of the year as retailers should have transitioned out of previous inventory.

This year we have several other great brands we are supporting, including YOKAI WATCH, which has been rolling out in markets globally, and the upcoming DreamWorks release of *TROLLS*. Our TROLLS product will begin to hit retail in August, ahead of the November 4th premier.

We have tremendous partnerships with great IP owners. We approach each of these brands as if they were our own – committing to them the best talent, resources and innovative ideas in the industry.

Looking ahead, we have positive momentum and a powerful line of brands and play experiences for the remainder of 2016 and clear line of site to growth in future years. We have made tremendous progress in advancing our strategic capabilities to execute brands around the blueprint, but continue to prioritize the further development of our skillset and our culture toward creating the world's best play experiences. Deb will speak in detail about our financial results, but we are very pleased with the strength of the first half of the year and remain focused on growing both revenues and profitability to enhance shareholder value over the long-term.

I will now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you Brian and good morning everyone.

The Hasbro team continued to drive strong results for the second quarter, including double-digit revenue growth and margin expansion. We expanded our storytelling capabilities through our investment in Boulder Media and our balance sheet remains strong. We've returned $179.0 million in cash to shareholders this year and remain committed to investing in our business, returning excess cash and maintaining our investment grade rating.

For the second quarter 2016,

Revenues in the U.S. and Canada segment increased 11%. The Boys, Girls and Games categories posted revenue growth, more than offsetting a decline in the Preschool category. Hasbro Franchise Brand revenues were flat. NERF, MONOPOLY and PLAY-DOH increases were primarily offset by a decline in TRANSFORMERS. Partner Brand revenues were up in the segment.

U.S. point of sale increased in the high single digits for the quarter, and more than 20% in the first half of the year. Retail inventory continued to be of very good quality.

Operating profit in the U.S. and Canada segment increased 23%, to $58.0 million or 13.6% of net revenues, reflecting higher sales only partially offset by higher expense levels as leverage improved in the quarter.

International segment revenues grew 11%. Excluding the negative $17.0 million dollar impact from foreign exchange, International segment revenues increased 15%.

The Boys, Girls and Preschool categories posted growth in the quarter, while the Games category was down slightly. Franchise Brand revenues increased, with growth in PLAY-DOH, NERF, MY LITTLE PONY and MAGIC: THE GATHERING. Partner Brand revenues also grew in the quarter.

Operating profit in the segment increased 17% to $29.7 million or 7.4% of net revenues. Similar to the U.S and Canada segment, operating profit improved on higher revenues which were only partially offset by increased expenses year-over-year.

Through the first six months of the year, currency has negatively impacted revenues by $46.3 million. Given the current global economic environment, we anticipate additional negative foreign exchange impact for the second half of the year. However, we now expect it will be slightly below the $100 million we initially projected for the full year. We continue to believe approximately 15 to 20% of that impact will also effect operating profit.

Entertainment and Licensing segment revenues increased 9% with gains in consumer product licensing and digital gaming revenues.

Segment operating profit increased 86% to $13.8 million or 26.6% of revenues. Higher revenues coupled with lower intangible amortization and lower program production amortization drove the increase despite higher promotional expenses associated with digital gaming launches from Backflip Studios.

Overall,

Operating profit increased 12%, and operating profit margin gained 20 basis points versus last year.

The revenue increase from Entertainment and Licensing, Franchise Brands and Partner Brands delivered a favorable product mix which drove cost of sales to revenue down 40 basis points versus last year. Royalties increased to 7.9% of revenues, associated with continued strong growth in Partner Brands.

In product development, we continue to invest at a higher level to drive innovative play and grow our brands. We also continue supporting our efforts with multi-faceted advertising campaigns.

Intangible amortization declined, reflecting some of our digital gaming assets becoming fully amortized at the end of the second quarter of last year.

Program production cost amortization was also down in the quarter. We continue to invest in both television and film content, but this quarter we are amortizing fewer television programs than last year at this time.

SD&A increased 12% in the quarter, primarily due to investments in brands, including MAGIC: THE GATHERING, marketing and higher compensation expense.

Through the first half of the year, operating profit margin has improved to 10.0% from 8.6% last year. This gain is being driven by the strength of our brands, solid execution from our global teams and continuous strategic investment to drive growth over the long term.

Turning to our results below operating profit for the quarter:

Other income was $6.1 million versus $2.3 million last year and reflected increased investment gains.

The underlying tax rate was 26.1%, down from 27.1% last year and down slightly from 26.4% for the full year 2015.

Diluted earnings per share were $0.41 cents compared to $0.33 cents last year.

Our balance sheet remains strong.

Cash totaled $924 million at quarter end. We generated $585 million in cash over the past 12 months. During the second quarter, we returned $85.8 million to shareholders: $63.9 million in dividends and $21.9 million in share repurchases.

Receivables at quarter end were down slightly, and DSOs decreased 8 days to 72 days. Absent the impact of foreign exchange, receivables increased approximately 3% versus the 12% revenue growth absent FX. The decline in DSOs was driven by the timing of revenue and collections in the quarter, as well as the bad debt provision we took in the first quarter. Overall our accounts receivable remain in good condition and collections continue to be strong.

Inventories increased 42% versus last year. Adjusting for a negative foreign exchange impact, inventory increased 48%. Approximately 80% of the year-over-year increase is in brands which are new to our portfolio or delivering high growth including DISNEY PRINCESS and DISNEY'S FROZEN, STAR WARS, NERF, PLAY-DOH and YOKAI WATCH. The quality of our inventory is high both at Hasbro and at retail as we are supporting new initiatives in addition to our planned growth.

We enter the second half of the year in a very strong financial and market position. We have compelling brand initiatives and remain focused on delivering a very successful year. This strength of our business not only reflects the results of the investments we have made in our blueprint and teams, but more importantly, allows us to continue on our path of strategically investing in our brands and capabilities to further drive long-term profitable growth for Hasbro and our shareholders.

Brian and I are now happy to take your questions.