Hasbro Second Quarter 2012
Financial Results Conference Call Management Remarks
July 23, 2012

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Our second quarter earnings release was issued earlier this morning and is available on our website. Additionally, also available on our web site, are presentation slides containing information covered in today's earnings release and call. The press release and presentation include information regarding Non-GAAP financial measures included in today's call. Please note that during today's call, 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 CFO, will review our second quarter financial results and discuss important factors impacting our performance. Following their statements, David Hargreaves, Hasbro's Chief Operating Officer, will join Brian and Deb 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, financial goals and expectations for our future financial performance, including expectations for revenues and earnings per share in 2012.

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.

2012 continues to develop in line with our expectations, as we shift more of our shipments to later in the year while improving profitability in the near term. While shipments are expected later in the year, through May, we have gained share in the United States. Given strong growth in our emerging markets, we are also confident that we are gaining share in these geographies as well. Innovation in Hasbro core brands and new initiatives, strong entertainment in both films and television and global expansion is driving our business this year and beyond. We remain steadfast in the execution of our branded play strategy for the long term and believe in the value it is creating for our shareholders.

As we've stated, our 2012 plan calls for shifting 2 to 4% of our full year revenues into the second half of the year. We are on track with this plan and we continue to expect to grow revenues and earnings per share, absent the impact of foreign exchange, for the full year 2012. We also expect that the fourth quarter will be greater than the third quarter in both revenues and earnings per share, similar to the historical trends in our International segment and Entertainment and Licensing segment.

In the first and second quarters, in partnership with our retailers, we have restaged our retail presence, lowered overall inventory levels and focused on aligning our shipments with the strongest periods of consumer demand. As a result, it is not surprising to see our U.S. and Canada net revenues down through the first six months. However, we are very encouraged about the quality of our execution and the profitability improvements we are delivering. We remain committed and on track to returning to historical levels of operating profit in the U.S. and Canada segment.

We have great innovative products launching over the next two quarters for all consumer groups and geographies. Entertainment is also driving incremental brand exposure and demand from both television and feature films, and our teams and retailers are supporting these fast breaking initiatives. These include several new games, as well as our alliance with ZYNGA, through which we'll be launching WORDS WITH FRIENDS, FARMVILLE and CITYVILLE games this year. Across categories, we have new lines based on Hasbro core brands and a new 1D branded product line based on the incredibly popular band, One Direction, from the UK, which is taking the world by storm.

Internationally our business grew 5% absent foreign exchange, although reported net revenues were down 4% as we faced a more challenging exchange rate environment. Our international revenues continue to benefit from our expansion into emerging markets, innovation in Hasbro brands as well as global entertainment, in both films and television programming.

Year to date, all major geographic markets are up excluding currency translation. In the second quarter, Latin America posted strong growth, up 15%, and up nearly double that absent foreign exchange. Excluding foreign exchange, Asia Pacific was up slightly and Europe was down approximately 1% given the challenging comparisons with TRANSFORMERS and BEYBLADE last year.

Through new markets and share expansion backed by innovative products and engaging marketing programs, we are in a position to grow off of last year's strong performance despite facing a persistently challenging global economic environment.

Our performance overall reflected the shipment timing and retail inventory reductions in the U.S. and Canada, as well as difficult comparisons versus TRANSFORMERS and BEYBLADE last year.

As a result, revenues in the Boys category declined 16%. Sales of MARVEL properties, driven by tremendous performance at the box office, were very strong. MARVEL'S THE AVENGERS is ahead of expectations and THE AMAZING SPIDER-MAN is just getting started. The strength in MARVEL was offset by declines in TRANSFORMERS and BEYBLADE within the Boys category.

In the Games category, we are one year into the Gaming Center of Excellence as we re-imagine, re-invent, and re-ignite our entire games business. To date, we have made very strong progress. Based on the faster pace of innovation and initial reactions to our new games, we have greater confidence today in our ability to stabilize this category in 2012 and grow it next year. Through newly created teams focused on specific demographics and psychographics, and teams focused on technologies that span digital and analog play – ultimately marrying the two play patterns together - we are truly redefining what it means to play games for our consumers globally.

Through our Boys Action Gaming lines, including TRANSFORMERS BOT SHOTS, STAR WARS FIGHTER PODS and MARVEL BONKAZONKS, we have created an entirely new gaming category developed specifically for boys and their desire to battle and collect. Year to date, this new way to game has generated significant new revenues.

In addition to our spring successes, this fall we have new games including TWISTER DANCE, MONOPOLY MILLIONAIRE, LAZER TAG, WHERE'S MY WATER and our new Zynga games. All of these initiatives will showcase our progress for gaming consumers. Our major U.S. retailers have aggressively lowered current game inventory, down 46% in the second quarter, putting themselves in a position to capitalize on these new innovations in the second half of this year.

Moving to our Girls brands, we have several exciting new initiatives launching in the coming months, including FURBY, which will be released in English Speaking markets in September and is already making retailers' lists of top ten toys for Christmas, and our 1D line of products, hitting shelves in August. Both of these initiatives are new in the category.

In our core Girls brands, MY LITTLE PONY, continued to leverage global television, and grew shipments again this quarter and posted strong point of sale in major markets, including the U.S., UK, Spain, Italy, Brazil and Russia. For the fall, BABY BUTTERSCOTCH and BOUNCY, MY HAPPY TO SEE ME PUP are feature items in FURREAL FRIENDS; BABY ALIVE brings BABY WANNA WALK to the market; and for LITTLEST PET SHOP, our new television animation will be airing in the U.S. this fall. A new line of LITTLEST PET SHOP FAIRIES will also be hitting shelves shortly.

Finally, our Preschool category benefitted from growth in PLAYSKOOL HEROES, including MARVEL and TRANSFORMERS, our SESAME STREET line and the initial introduction of our all new, re-imagined KOOSH brand. Looking ahead in the year, we are excited about many new Preschool initiatives including KOOSH, our new PLAYSKOOL ROCKTIVITY segment and SESAME STREET, but our comparisons become more challenging later in the year as we anniversary last year's initial SESAME STREET shipments.

From an entertainment standpoint, our strategy is delivering growth within our Entertainment & Licensing segment and creating demand for our Hasbro brands' innovative toys and games in global markets. Hasbro Studios shows are on in every major market and country worldwide and driving positive point of sale trends. We are also distributing our award-winning shows via digital and home entertainment distribution channels.

Our newest show, *Kaijudo*, recently premiered on THE HUB and this fall *Littlest Pet Shop* television programming will air in the U.S. and begin airing internationally in 2013. In 2012, we continue to expect $300 million of television backed revenues, about half of which we expect to be incremental.

In the U.S., THE HUB continues to make strong progress. The second quarter was THE HUB'S best quarter to date in the key demographic of kids 2 to 11 and June its biggest month. The network posted 54% growth in the second quarter versus a year ago and is outpacing growth at all major kids' networks.

In respect to feature films, looking ahead to 2013 there are a number of films we are supporting. First, *G.I. Joe: Retaliation* is expected in March 2013 in 3-D with our partners at Paramount. In May, *Iron Man 3* from Marvel is scheduled for release as well as *Star Trek* from Paramount. 20th Century Fox is planning to release *The Wolverine* in July and Marvel has scheduled *Thor: The Dark World* in November.

Additionally, from Hasbro and Universal, *Ouija* is scheduled for release next year.

Also in 2013, Hasbro is excited to again partner with Lucasfilm on their next 3D entertainment event. Hasbro will have a full line of merchandise supporting this venture. Lucasfilm will be announcing specific details on this topic along with the actual 2013 timing of this news at the upcoming Star Wars Celebration- taking place in Orlando, August 23-26.

In summary, through the execution of our branded play strategy we are in the early stages of unlocking the total potential of our brands. In the near term, the year is developing in line with our plan to improve profitability in the U.S. & Canada segment, stabilize the games category and introduce new innovative Hasbro core brand and entertainment backed properties for the holidays. Over the longer term, we remain on our path toward delivering on the full potential of Hasbro's and our partners' brands globally.

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

Deb Thomas, Hasbro CFO

Thank you and good morning.

Hasbro enters the important second half of the year in strong financial condition and on track with our plan for 2012. Our profitability improved in the second quarter, despite lower revenues. Looking ahead, we have new innovative initiatives launching in the coming quarters and our plan is to continue to generate healthy cash flow to fund our business and return cash to shareholders.

For the second quarter 2012, revenues declined 7% in constant dollars. Including a negative $34.4 million impact from foreign exchange, and consistent with our plan to shift 2 to 4 percent of our full year revenues to the second half of 2012, second quarter worldwide net revenues declined 11% to $811.5 million, versus $908.5 million last year.

Operating profit for the quarter was $86.3 million or 10.6% of revenues, compared to our reported operating profit of $80.4 million or 8.9% of revenues in the second quarter 2011.

As a reminder, in the second quarter of last year, we recorded a $13.1 million pre-tax expense, or $0.06 per share, for costs associated with establishing Hasbro’s Gaming Center of Excellence. These costs were approximately evenly split between Product Development and SD&A. Excluding these costs, operating profit a year ago was $93.5 million or 10.3% of revenues.

For the second quarter 2012, net earnings were $43.4 million, or $0.33 per diluted share. Net earnings a year ago were $46.0 million or $0.33 per share, excluding the costs for the Gaming Center of Excellence and excluding a favorable tax adjustment of $20.5 million, or $0.15 per diluted share. Including both items, second quarter 2011 reported net earnings were $58.1 million, or $0.42 per share.

Cash grew in the quarter to $779.9 million, on $200.8 million of operating cash flow year to date. We are in a strong cash position to fund our business and return cash to shareholders.

Looking at our second quarter 2012 results by segment:

The U.S. and Canada segment net revenues were $406.6 million, down 19% versus $505.0 million last year and consistent with the plan to shift revenues later in the year.   Retail inventories in the U.S. declined in the quarter, decreasing approximately 29%.

Consistent with the shift in revenue timing, net revenues declined in the Boys, Girls and Games categories, but increased in the Preschool category.

The U.S. and Canada segment reported operating profit of $60.9 million, and an operating profit margin of 15.0%. This compares to last year's second quarter operating profit of $57.7 million or 11.4% of revenues. The increase was driven by sales of higher quality inventory this year as well as growth in MAGIC: THE GATHERING. Our second quarter 2012 operating profit margin is in line with historical operating profit margin levels.

Second quarter 2012 International segment net revenues declined 4% to $360.5 million compared to $374.5 million last year. Net revenues in the International segment grew 5%, absent a negative foreign exchange impact of $33.4 million. Similar to the U.S. and Canada segment, the Preschool category grew while the other major categories declined in the quarter.

Having made investments during the past few years to increase our global footprint, the results in this segment include growth in Latin America, including Brazil, Colombia, Chile and Peru, as well as certain other emerging markets such as Russia. This was offset by a decline overall in Europe and Asia Pacific, which had a challenging TRANSFORMERS and BEYBLADE comparison.

Operating profit in the International segment decreased 12% to $29.9 million or 8.3% of revenues versus $33.8 million or 9.0% in 2011. The decline in the segment's operating profit margin was the result of lower revenues in Europe partially offset by the positive impact of revenue growth and resulting margin expansion in Latin America.

The Entertainment and Licensing segment net revenues increased 59% to $43.2 million compared to $27.2 million in 2011. Revenue growth in the Entertainment and Licensing segment reflects the positive impact of the sale of television content in all formats, including global television distribution, digital distribution and home entertainment.

For the second quarter 2012, the Entertainment and Licensing segment reported an operating profit of $8.2 million versus $600,000 in 2011. Higher revenues and better expense leverage drove the increase in operating profit in the quarter.

For the Company overall, cost of sales for the quarter was $312.0 million or 38.5% of revenues versus $378.0 million or 41.6% of revenues last year, reflecting sales of higher quality inventory year-over-year and higher margin revenue from the Entertainment &

Licensing segment as well as from Wizards of the Coast. Input costs did not have a material impact on the quarter.

From an expense standpoint, total operating expenses were $413.2 million, or 50.9%, versus $450.0 million or $49.5%, last year.

Program production amortization in the quarter totaled $10.0 million versus $7.1 million last year. Given our current expectations of ultimate revenues and current mix of programming, we now expect program production amortization to be in the $50 to $60 million range for 2012. As we continue to gain production efficiencies, we anticipate spending less on programming from a cash standpoint, and now expect cash spend to be in the $60 to $70 million range for the current year.

Second quarter 2012 royalties were 8.7% of revenues compared to 9.0% of revenues in 2011 and reflect strong sales of entertainment properties including, MARVEL, BEYBLADE, TRANSFORMERS and STAR WARS. For the full year 2012, we anticipate royalties to be at the higher end of the 7 to 8% of revenues range we previously shared with you. This reflects the anticipated strength of the Marvel brands this year.

Our advertising to revenue ratio in the second quarter was 9.8% versus 9.0% in 2011. The increase is consistent with our stated plan to increase our investment in advertising in 2012. For the full year, we anticipate advertising to be in the 10 to 11% range.

SD&A of $191.4 million declined $22 million year-over-year and as a percentage of revenues was 23.6% in the second quarter 2012 versus 23.5% in 2011. In 2011, excluding games costs, SD&A was $206.7 million or 22.8%. We are currently targeting SD&A to be approximately 20% of revenues for the full year 2012.

Moving below operating profit:

Other expense was $4.2 million in the second quarter of 2012 versus $4.6 million in 2011.

Our 50% share of THE HUB is included on this line on the P&L. For the second quarter 2012, our share of the earnings in THE HUB was a loss of $2.4 million compared to income of $197,000 last year. We continue to expect THE HUB's impact for the full year 2012 to be in line with 2011 levels.

Our underlying tax rate for the second quarter 2012 was 26.8% compared to an underlying tax rate of 27.7% in the second quarter 2011. We expect our full year tax rate to be in line with the second quarter's 26.8% rate versus 26.2% in 2011.

Now let's turn to the balance sheet:

At quarter end, cash totaled $779.9 million compared to $584.8 million a year ago and $883.8 million at the end of the first quarter. Operating cash flow for the first six months was $200.8 million and includes $25 million in television programming. For the trailing twelve months, operating cash flow was $468.0 million dollars and includes $67.9 million in television programming costs over the period.

We continue to return cash to shareholders through our quarterly dividend program and in the second quarter we paid $46.7 million in cash dividends to shareholders. Our next dividend payment is scheduled for August 15. Given our 20% increase in the quarterly dividend rate earlier this year, we anticipate full year 2012 dividend payments to be approximately $180 million compared to $154 million for the full year 2011.

After repurchasing approximately $5 million worth of shares in the second quarter, $217.3 million remained available at quarter-end under our current share repurchase authorization. Our intention is to continue repurchasing shares opportunistically in the open market, using the current authorization as appropriate; however, as we stated previously, we do not currently anticipate repurchasing shares at the same level as we did in 2011 and 2010.

The quality of our receivables portfolio remains good and receivables at quarter end were $651.4 million versus $838.0 million last year and $456.6 million at the end of the first quarter.

DSOs were 72 days, down 11 days versus last year. DSOs improved year-over-year based on the timing of shipments and collections.

Inventory levels at quarter end were $416.9 million compared to $426.9 million a year ago and $397.0 at the end of the first quarter. Our inventory position declined in the quarter versus last year due to lower U.S. inventories, partially offset by international expansion including a new warehouse in Russia which was opened in April 2012.

Depreciation and capital expenditures for the quarter were $24.4 million and $27.1 million, respectively.

Given the innovation in Hasbro’s and our partners’ brands, geographic expansion, our focus on profitability improvement and the strength of our financials, we are in a strong position to deliver on our guidance to grow revenues and earnings per share, absent the impact of foreign exchange, for the full year 2012. Our expectation is that the fourth quarter will be greater than the third quarter in both revenues and earnings per share, as we better align the U.S. and Canada business with consumer demand to be later in the year, similar to the historic trends we see in the International and Entertainment & Licensing segments of our business.

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

Debbie Hancock, Hasbro, Vice President, Investor Relations –

Thank you to everyone for joining the call today. The replay will be available on our website in approximately two hours. Additionally management's prepared remarks will be posted on our website following this call.

Our third quarter earnings release is tentatively scheduled for Monday, October 22.

For those of you listening from overseas, we will be participating in UBS's Best of Americas Conference in London on September 6 & 7.

We look forward to speaking with you in the coming months.