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HAS - Hasbro Inc at Sanford C Bernstein Strategic Decision Conference

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David James Beckel *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

PRESENTATION

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

All right. I think, we will go ahead and get started. For those of you who don't know me, my name is Dave Beckel, senior analyst covering U.S. leisure and lodging here at Bernstein. And it is my pleasure to introduce Mr. Brian Goldner, Chairman and Chief Executive Officer of Hasbro. Brian has been with Hasbro since 2000, holding the role of CEO since 2008, and is responsible for conceptualizing and executing Hasbro's branded play strategy.

Just a quick procedural note, Brian will kick things off with a couple of prepared remarks, and then, we'll engage in a fireside chat. At around the 30-minute mark, I'd like to open the floor up to your questions. You should all have an index card of some sort. If you have a question, please pass that to one of the facilitators, and I'll be sure to ask as many as I can in the time permitted.

So with that, I'll hand it over to you.

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Great. Thanks, Dave, and thank you, guys, all for being here today. I'll just remind you, of course, we probably will make forward-looking statements and refer to our SEC filings. So Hasbro, today, is a company that is a global play and entertainment company. We are very focused on the reinvention and re-ignition of brands and taking brands around our Brand Blueprint or our strategy for strategic growth to create the world's best play experiences. And I'll walk you through what our blueprint looks like and how we are reinventing our brands for the future state.

And just a little table setting. Last year was a record year for us in -- the first time with \$5 billion in revenue, a 13% growth year, a record year in operating profit, \$4.34 in EPS. And our board, in recognition of our success, increased the quarterly dividend 12% to \$0.57 per share as of February, is when they voted.

We've also seen, through great performance, great operating cash flows. In fact, our operating cash flow target is now \$550 million to \$650 million a year, and last year, we achieved \$775 million. We continue to look at our capital priorities in this way: first and foremost, investing in our business; second, in returning excess cash to our shareholders in the form of a dividend. And then, in our repurchases of our shares over the last 10 years, we have obviously continued to return excess capital to our shareholders. We've seen, on average, a quarterly dividend increase of 14% over the last 10 years.

So really, if you think about what's driving Hasbro, we've been through -- what people have asked me all the time, in what inning are we in? Or how do you see this business progressing? And I'd say, we're probably in the third inning. And the first inning was really rekindling the work around our core brands and building an organization in the second inning that's all about global brand leadership. It's our teams of people around the world and the composition of our workforce that's changed dramatically over time. In fact, 50% of our workforce has been at the company less than 5 years, and that's enabled us to develop this blueprint to develop the industry-leading capabilities, really, storytelling capabilities based on proprietary consumer insights and more recently achieving the \$5 billion mark in sales.

This is the key chart in many ways to the company. If you were to distill down everything that we tried to accomplish at the company, you would distill it down into our Brand Blueprint. We put our brands at the center of everything we do, we surround those brands with proprietary consumer insights and storytelling. Storytelling can take on many forms. It can be inspiring UGC content, user-generated content, it can be episodic television programming, it can be motion pictures, or it could be all those things, in the case of a TRANSFORMERS or a My Little Pony brand.



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We, then, of course, because we're telling stories around the brand, can create great consumer products and hundreds of licensees around our brands in support of our storytelling efforts. And then, Digital Gaming, we execute our brands, worked particularly well in games. In Digital Gaming, we own a raft of brands. In fact, we're sort of the who's who of games brands.

Toy and game innovation, product innovation, increasingly digital and analog connected product innovations. And then, creating immersive entertainment experiences to continue to propel the model forward, of course, around the world, with omnichannel retail relationships. So online, omnichannel and brick-and-mortar relationships in developed and emerging economies.

So our brands do really sit at the center of everything we do. In fact, if you look at our franchised brands, and these are the top 7 brands of our company, they grew last year. And over a 10-year period, have grown at a CAGR of 10%. And they do enjoy 20% better -- or better operating profit margins. The company average operating profit margin as of last year, as reported, was 15.7%, so clearly, accretive to the operating margin of the company. And we continue to focus on the growth and potentiality of these brands because we believe these brands all have the potential, over time, become \$1 billion brands.

We then have a raft of partners and partner brands, particularly focused on our relationship with the Walt Disney Company and Universal through Trolls and Sesame Street and a few others. But within Disney, we handle all the toys and games in the major categories for Marvel and STAR WARS, and more recently, DISNEY PRINCESS and FROZEN.

One of the ways we propel our business has been a more than decade-long commitment to gaining global consumer insights. In fact, we use a multitude of methodologies to generate proprietary global consumer insights. We have thousands of families in an online panel, we use a quantitative, longitudinal research in modern fan, modern kids, modern girls, modern gamers, which gives us unique insight into how people are playing, what kinds of brand's experience they're looking for and how do we satisfy that through our storytelling, innovation, gaming, consumer products and the storytelling capabilities.

This is one of the key drivers and strategic differentiators for our company. The other strategic differentiator is the fact that we are a storyteller as well as a partner to other great storytellers. Over the last few years, we continued to build our capabilities. Last year, we bought Boulder Media, which is an Irish animation company. This year, for the first time, we'll have our first animated feature film, My Little Pony, will be an animated feature film, distributed by Lionsgate. And we're continuing to build around the blueprint ways to tell stories, whether they be streamed online, streamed through YouTube, through Netflix or other OTT providers, through SVOD deals or through linear cable networks around the world. Our TV shows are seen in an average of 190 countries around the world for brands like My Little Pony Television and TRANSFORMERS.

So Boulder, as I said, we acquired about a year ago, and we are scaling their efforts. They also produce for some of the better-known networks around the world, they have a great animation style and it's scalable, and of course, Ireland is also a tax advantaged geography that supports the animation efforts of companies. And so again, they're going to be a strategic asset for us as we go forward.

MY LITTLE PONY: MOVIE comes to theaters this October. It's our first animated feature film. And I think, it's very important to note that we're developing this feature film using new technology and filming techniques that make the price point for this movie far different than and below a more nominal price point than a lot of the feature films that are produced by some of the major studios, that's enabling us to build sustainability to this modeling continuity, and also still enabling us to make a beautiful film that will look great on the big screen with a very well-known cast that includes Kristin Chenoweth and Emily Blunt and Taye Diggs and Liev Schreiber, and music by Sia, the music artist. So that -- it gives us the A level talent that you come to expect from an animated film and a great story around our ponies as they -- if you're a Pony fan, you would know they primarily live in Equestria, and this is the first time they really travel beyond Equestria to new worlds, and it gives us the opportunity to introduce audiences to these new worlds that they live in.

Of course, we're also the owner of the TRANSFORMERS brand. And over time, in fact, this year, is the 10th anniversary of our movie efforts on top of what we do in television and other streamed content. We'll have a movie that comes out in June, Transformers: The Last Knight. Next year, based on building out this TRANSFORMERS universe, we have a movie coming out in June, it's the Bumblebee movie, so it's based on the one of the most beloved characters in our mythology called Bumblebee, some of you probably know him as the yellow Camaro. Originally, he was the yellow VW bug. And he's a character that's become known through comic books and animation and now being built out into the big screen.



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And in fact, that's one of the ways that we operate, is by building these characters over time, we're both taking and making equity withdrawals as well as equity deposits. So Bumblebee originally started in comics, and then was transformed into being an animated character over many different TV series, about 9 or 10 different TV series over 30 years, and then, more recently, as a feature film key character for us.

Another interesting story, as ways to we are now launching brands, Hanazuki is a new brand for the company, really a franchised brand in the making. Hanazuki was based on a property and created by 2 artists in Amsterdam. We found this property, and I'd say it's kind of a mix between SpongeBob and maybe Hello Kitty. It's got a very quirky style, and it's a celebration of moods: M-O-O-D-S, moods. Just much the way My Little Pony is a celebration of friendship, this gives children the permission to understand their moods and how moods can be a very powerful thing for a character like Hanazuki.

We created 300 minutes of animated content. We broke it up into small pieces, 11-minute pieces and went to YouTube, which is now, today, kids' favorite TV network. We streamed that content. Just over the last about 12 weeks, we have received more than 125 million views of that content, which is more than a lot of the kids linear networks combined in terms of ratings. So we're building an agile, flexible, modern entertainment platform and using all the different methodologies that we can to build out a presence for our brands to build that brand's salience and resonance. I think, it's a very important element of the company as we go forward.

Of course, we're focused on toy and game innovation, and no longer do toys just live in the analog space. Increasingly, we're connecting analog toy play experiences to digital experiences and back again. We are developing products around coding, we're developing products around AR, VR and MR. We have dedicated teams focused on new technologies and innovation, which enables us to get higher gross and operating margins for our products and command those premium prices.

Then, as you tell stories around your brands, you're able to engender interest from consumer products licensees. In fact, for both TRANSFORMERS and My Little Pony, this year, around our feature films, we have more than 200 licensees in a multitude of categories, from backpacks, to back-to-school, to bedding, to T-shirts, you name it. Of course, we have lots of comic book publishing going on, it continues to feed the equity bank for future storytelling. And then, consumers are able to enjoy our brands across all of these ranges of product. And of course, that makes us more important to our global retailers because we're not just informing the toy and game departments at retail, but rather the entire box, whether that box be virtual and online e-commerce or in literal boxes at brick-and-mortar retail.

Digital gaming has become a key component. In fact, our games business, overall, is a key component and strategic differentiator for the company. Digital gaming is a key growth engine for us in a number of ways. About a year ago -- no, a couple of years ago, we bought Backflip Studios in Boulder, Colorado, and that is a digital gaming, mobile gaming company that will do some of Hasbro's titles as well as their own titles, original titles. And then, we also use third-party relationships to build out digital gaming, and a very lucrative part of our business but also a way to engage in an increasingly important format for consumers globally.

In fact, we're licensing our games brands out to a number of different great gaming studios with great results. And of course, people love to play games they know, and they love to see those games reinvented into modern technology and in mobile spaces, and so our games resonate particularly strongly in this space. And this is an area of development for us. We're ahead, but we want to continue to stay ahead.

Then, of course, as I mentioned, we have these direct omnichannel retail partnerships. We believe this is a strategic advantage for the company. I think, years ago, people might have viewed it as a necessity, but we now view it as a strategic priority. And in fact, it's a, we think, a strategic differentiator for the company. We're working directly with global retailers, more than 100,000 doors of retail plus online retailing. Online retailing is growing at about 3x the rate in our POS than brick-and-mortar, but brick-and-mortar is growing at about 10% on average, and we're growing about 30% in online. So globally, in emerging markets and developed economies, we see our business growing. And these retail partnerships are incredibly important as we complete the virtuous circle of connection with global consumers and audiences.

The e-commerce partnerships I referred to are very pervasive and with all the e-com players, they could be omnichannel players or straight online players. We continue to develop new technologies and work with them on proprietary methodologies of selling product, building virtual online experiences, and online e-commerce is particularly important because it really does bring together everything we're doing in our Brand Blueprint. It's the connection between commerce and content and innovation, and that's particularly a great way to leverage all of the skills of our company.



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And then, finally, we are increasingly focused on, and have always been a company focused on CSR. In fact, we were named by CR Magazine's, Corporate Responsibilities magazine, the #1 corporate citizen this year. Our teams put a lot into our products, product safety, ethical sourcing and environmental sustainability.

Many of you may remember things like those wire ties that used to be in toy packaging years ago that have all disappeared and have now been replaced by recyclable paper rattan. That's just one example among many of the kinds of changes we've been making to the product and increasingly making our product life [cycle] one of that's good for our world and the environment.

So if I was to wrap up, really, very focused on our story-led brands and innovation with integrated technologies. And of course, continuing to focus on and build shareholder value.

So that's the end of my prepared remarks, and we'll go from there.

QUESTIONS AND ANSWERS

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Great. Thank you very much. Great introduction. So you were with us at our event -- at the same event last year, I'd love to know how the Brand Blueprint strategy has evolved or progressed in that time. What are some of the more notable milestones that you've achieved?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Yes. So I think, first and foremost, we've really focused on the acceleration of the blueprint across all the different areas of the business. The idea of garnering global consumer insights is one that's become more powerful. You're seeing how that's propelling brands like NERF globally. Years ago, NERF was just a domestic brand, and people wondered whether that NERF play pattern would resonate globally, that's something that we've really accelerated as we've understood global audiences and how that would really work globally. Then, we're seeing brands accelerate, like TRANSFORMERS, across a multitude of platforms. But it's really about, over the last year, a focus on some enhancements we've made. We talked about Boulder Media and bringing on an animation capability over the last few years, getting further into digital gaming. But overall, again, it's about the blueprint coming to life more fully and fundamentally, and then, bringing on more of those storytelling capabilities so that we can continue to lead in the area of consumer insights and storytelling. I think, that's been an area of focus for us.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Great. Just to take a big step back, from a top down perspective, it seems like an outside observer might presume that traditional toys would be under duress from technological advancements. My kids are on the iPad all the time, et cetera, et cetera. But it doesn't seem to have been the case, right, over the last couple of years? Have you seen any noticeable erosion in terms of percentages or time spent from traditional toys to digital substitutes?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Not really. In fact, what we're just seeing among -- if you look at the audience and young people particularly, they're just consuming more media and more experiences. So now, today, young people are consuming about 9-hours worth of media in about a 4-hour period, and so they're bending time because they're consuming multiple -- a multitude of different platforms and media almost at once. We're also seeing the industry growing. Our toy industry itself has grown over the last couple of years, and this year, year-to-date, through April, is up mid-single digits, about 4%. Our business clearly has outstripped that growth over the last couple of years. The toy business is one of the keystone categories within a story-led brand universe. Increasingly, we're seeing more storytelling around brands, we're seeing more movies and television series, and that's really driving interest in the toy industry and consumer products overall. In fact, the growth rates of story-led brands are about 4 or 5-fold higher than non-story-led



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brands within the industry. So within that 4% growth, you're really seeing a big delineation between those brands led by story and those not led by story. And I think that, that, again, portends good things for our industry. People gravitate to brands where they love the characters and story, and then they want to travel with those brands across all these different experiences. And in return for that, and as they spend time there and enjoy and are delighted by those character's experiences, they're contributing back to our streams of income, they come back to the company in return for the investments that we're making, and that's really what we're seeing.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Got it. And I was particularly surprised to hear in one of your conference calls that face-to-face gaming was one of the fastest-growing categories, if not the fastest last year. I'd be as surprised to hear that physical newspaper sales outstripped digital sales, that sort of thing. How is that possible that, I'm assuming this is like traditional board game-type product, would actually be the fastest-growing toy category that you have?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Well, I think, the idea -- you got to get rid of the notion of the form factor of -- so newspapers are paper and somehow board games are paper and therefore they're less interesting. I think, the analogy I would draw is that as people spend more time with their mobile phone and spend more time in a digital world, they are more desirous of a social interaction, face-to-face time becomes even more important. And games are a great way to get together socially without a lot of effort. And so what we're really seeing is that people increasingly are doing very fun things together. We're able to use social listening and social scraping to understand what the trends are out there and the kinds of videos people are posting and the kinds of fun they're having. We're then turning those social scraping insights into product that we're putting out in the market on a very quick basis, a very responsive basis, 11, 12 weeks to market for brands like PIE-FACE and SPEAK OUT, and these are all fun social games that millennials love to play. Millennials love playing games. So young adults are playing a lot more games and they like these social games because it's really easy to get together and play games and have fun and post videos. 50% of people are playing these games or posting videos of their game-playing. So it really, again, it completes this social media cycle of people sharing their fun experiences. And then, our classic games have also continued to grow through reinvention and new technologies and new form factors, so the Monopoly that people play today can be as classic as the classic Monopoly we're familiar with, or it could be a form of Monopoly like electronic banking where you're all giving credit cards and you use a bank and you can move the game through very quickly, and you eliminate all the Monopoly money from the gameplay. So we're giving people lots of different ways to experience the classic games brands as well, and that's also leading to growth.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Interesting. Runs counter to one of the preconceived notions about millennials that they are attached to their devices and don't interact with other human beings.

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Yes, actually, there was a study that I was reading in one of the big publications that say, if you go out to dinner, millennials are less likely to be on their phone out at a dinner in a restaurant than probably people of our generation. So they're actually more desirous of finding that time to reconnect. That doesn't mean they're not on their phones because, of course, everybody's on their phone. But I think, the more people spend time in that engaged mobility, at a distance with others, they're all equally desirous of the time to reconnect with people and have fun. And we also know, you can look at all the studies, this is a group of young adults who are looking out and seeking out and spending money and time on experiences. They're dressing up and going to conventions, they're traveling to go to -- have experiences collectively, those are important for them, those social experiences, and so we want to enable them to have social experiences around our brands and our selling experiences and product increasingly around that. And of course, we have theme park presence for brands like TRANSFORMERS through our relationship with Universal Parks.



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David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Is there a hashtag for PIE FACE?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Go online, you'll see a lot of videos around PIE FACE, and a lot of people playing PIE FACE. And in fact, so many people play PIE FACE. I think, we've grown whipped cream consumption globally.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

A micro trend in the making there. That's great. So toys have obviously become more tech-enabled. We've gone a long way from, when I was a kid, Teddy Ruxpin was very high-tech, to Pokémon Go, sort of the newest trend. How do you see the integration of toys and tech evolving over the next 5 years? And what is Hasbro specifically doing to capitalize on emerging trends that are out there? Or maybe that you're developing yourself?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Yes, I think, again, I think, we can always come back to the consumer, the audience's desire. So we're not taking technology for technology's sake, but rather, looking around the corner at what people are really desirous of, and how do they want to create play experiences for themselves? So one of my favorite products for this year is something called Dance Code Belle. So Belle, of course, from Beauty and the Beast. And this is a product that the child can program, and they program her dance moves using some simple coding. And then, you're experiencing and playing with Belle as she's going through the dance routine that you, yourself, have created. So there's an example of how you do something that the child would want to get engaged in, a doll that is interactive, and done in a manner that you'd be particularly interested in if you're really a fan of Belle or Beauty and the Beast. We've got other coding products. And then, we have a team, for example, working a little further upstream on AR, that's AR, VR and MR products, so augmented reality, meaning the idea of being able to see objects that are put in your field of vision that aren't really there, but in putting them in your field of vision, you're able to interact with them. And so you're going to see products from us in the near future that's going to enable that to happen in a really relevant, immersive way at a price point that, I think, will be pretty compelling. And we're working in MR, which is mixed reality, where you're mapping a world and a room and providing a play experience that's really fantastical, while still seeing the backdrop of the real world. And then, of course, VR is further upstream, we're you're actually masking the entire actual room with a virtual experience. But these are new types of play patterns. We want to profitably experiment in these areas. It doesn't require a lot of investment, although Hasbro is a company that's not afraid of R&D. And in fact, over time, we have spent a bit more in R&D than some of the people you might compare us to, and it's really paid off in a major way, as you've seen our growth in revenues and earnings, and the engagement with our brands and products globally.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

So it's mixed, virtual reality or augmented reality, I guess. Are those play patterns that you're seeing progress rapidly among younger folk, I guess?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Well, the thing about virtual reality is that it does mask the world around you, so it's really for an older audience because, I think, for a kid, that would be -- could be relatively disorienting to not be able to see the world, but rather a virtual world. So what we've tried to do is take the fun and immersion of that experience that might be for a teenager or a young adult who's playing in a video game and take that experience down to a place where you're able to add characterization or interaction, but in a very familiar world because it's actually this room or the room that they're in. And that's very -- it's got the frame of reference of something they understand, which is they haven't left the room in any way, but we're adding fun characterization of interaction that's enabling them to play in a more super heroic way or a more dynamic way than they may have otherwise.



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David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

And what percentage of your offerings over the next couple of years do you imagine having some tech aspect to it?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

I think that the way we, again, view it is through the lens of the audience or consumer, and that is that a young person doesn't delineate between an analog play experience and a digital one the way we do. They don't say, oh that TRANSFORMER robot is an analog play pattern and, therefore, now give me the digital play pattern. They say, if I'm a fan of TRANSFORMERS, and I love the movies, and I watch the TV series, and I stream the content on Netflix, and I'm totally engaged in all these characters and I happen to transform this robot, could I take that robot that I've transformed into my digital game? And the answer has to be yes. So what we have is an integrative play team that are experts at technology that make what is very challenging to do seem very simple and seamless to the audience. That's the key, that the young person can move seamlessly from a digital gaming experience or an online app experience to an analog robot experience and back again and not know that, that took like dozens and dozens of people to create.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

That's interesting. I wanted to spend a little bit of time talking about something I find particularly interesting is the Hanazuki brand, which you pointed out, focused on moods or the combination of what was it?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Well, I said, it's kind of -- it's a little crazy, it's a little SpongeBob and a little Hello Kitty. Although it was created in Europe, it's not Japanese, it was created by 2 European artists. We found this brand and we acquired it for a de minimis amount of money, and we just said, look, we think we can give this real life and invent and ignite a passion around this brand because it's a really unique characterization. She's a moonflower. She lives on the moon, and her moods really propel a lot of the story, so you can imagine how empowering that is for young people to believe that you can embrace the moods that you have as a human, and that those are not bad, that you can understand what it means to be happy or sad or agitated or whatever it might be. And yet, she has a bunch of friends, they're little character friends called the Hemkas, that are all running around and kind of gremlin-like, if you will. And it's a very fun, compelling story. And as I said, we put out only 300 minutes of content in 11-minute snippets and garnered 125 million views already. So now, the question then becomes how do you engage story first and character first to platform that story into new screens or different screens? And it's not really about just selling toys, we may not sell a lot of toys for quite some time, it may be about engagement in a number of ways in order to build the salience of that brand, and then, ultimately, the payoff will be the engagement of that brand and, of course, their participation in products that we sell.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

What's interesting about it is it seems like the ultimate evolution of your vision 8 years ago or so to be brand-centric. Is this a playbook that you plan on engaging or implementing more of in the future?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

For sure. And I get asked by a lot of our investors and shareholders about the necessity to create content. And isn't creating content somehow adding to volatility? And actually, our point of view is very strongly that it's quite the opposite, it's paradoxical. But by creating content, you're actually building a level of sustainability of revenues growth and earnings power and visibility to the future entertainment initiatives that are going to inform all of our constituents, fans, audiences and consumers, as well as global retailers who are increasingly looking at story and storytelling and brands that have storytelling as the way to organize the retail calendar throughout a year. And so all of our constituents are really well-served and it actually enhances the visibility to our revenues growth, the revenues drivers, and over time, because we're focused on our brands as well as



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our partner brands and our brands are more profitable, therefore, we can get the leverage from that to get greater operating profit margins over time as well.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Got it. That's a good takeaway. Actually, I want to touch on partner brands, which comprise a little more than 1/4 of your total revenues. And your guidance, longer term, implies you expect it to be 25% to 28% over the longer run, which, obviously, implies a degree of stability. Curious, can you just share with us how defensible these contracts are? There are obviously some very -- some marquee sort of names that we're talking about here. And under what circumstances would you, I don't know if choose to drop is the right way to phrase it, but maybe not pursue a contract if the bidding gets out of hand?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Yes, look, we've really focused on the world's best storytellers as our partners, and we absolutely love being in business with them. So the Walt Disney Company and Marvel and STAR WARS and Princess and FROZEN are -- is a key relationship for us. We've put dedicated resources and personnel on each of those brands. They are absolutely passionate about bringing new innovations to those brands, and we treat those brands the way we treat our brands. And I think, people respect the fact that we treat those brands -- as an IP owner, we understand what it means to be a brand owner and a storyteller and, therefore, we bring new innovations to those brands, first and foremost. But we're also very selective about the number of licenses that we take on and the number of licensed relationships. Because we do invest so much in those relationships, you have to make sure we don't spread ourselves too thinly, so there's a relationship there, we have a smaller relationship but a dedicated one to Sesame Street, we have Trolls as a license. But there's a very short list of licenses that we focus on. There have been occasions over our history where we have let go of a license as a license term has ended, as a renegotiation, we felt, had gotten too expensive. Recently, we have forgone the Jurassic Park license, it was one. And that was a decision that we make looking at the full spectrum of the playing field of licenses that are out there and the kind of time and resource we want to commit to those endeavors and what the return could look like for our company as well as for our partners. And we just want to make sure that in every relationship, we build relationships based on building a win-win. The partner brands that we've been in business with for so many years, STAR WARS since 1978, since the very beginning and working with George Lucas. Marvel since 2002 or 2007. 2007, I believe. And so those are relationships that are -- that have meaning and can be meaningful to the company over time.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

And for those that hold the license, how important is their cut of revenue versus all of the other intangibles that a company like Hasbro can provide, like IP, intelligence, and marketing awareness and things of that nature?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Well, look, we do provide an array of inputs to the owner of the license. DISNEY PRINCESS and FROZEN is a great example where we've gone out and done a lot of studies around modern girls and modern boys, but we actually went out and did a big quantitative study around modern princess. And our work with DISNEY, who also does an incredible amount of research and understanding of their audience, really has led to our positioning for the DISNEY PRINCESS and FROZEN business, particularly the focus on princesses, why we launched all 11 princesses, how we focused on the innovation there, making the characters more true to the animation, and offering the fact that by having all 11 princesses, each is a doorway into the princess room, but with different degrees of personality and character. Some of those princesses have princes, some don't need princes. Some are more into fashion, some are more into action. And that gives the girl any number of different doorways into this play experience that we think is very important and very empowering. And that empowered girl is something that we really fundamentally believe in and we really discovered different permutations of that as we have done proprietary research, so that's how we contribute to brand development. And then, we tie that directly to the product innovations that we're creating for that partner.



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David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Actually, that sounds like it's quite a complex relationship?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Well, it's a really engaged relationship, which goes back to why you have to be, we feel, be selective about the number of those relationships you take on, and that you want them to be incredibly meaningful. And we want our partners to be rewarded for their work with us, that they would look at that relationship as not just a license relationship, but as being incredibly valuable to them over time. Both the globality that we can create, the innovations that we create, the price value and the gross margins that we can create because of the innovations that we create, and the fact that we help to propel the engagement around those characters and help to make their stories bigger than they would be otherwise, like Belle. Dance Code Belle is a great example. You have Beauty and the Beast, you have a wonderful movie, incredibly successful, a great product line, but Dance Code Belle adds another dimension, it's the first place we put that innovation and we didn't put it into any other product, we put it there because we felt it fit there best. The consumer and audience told us that was a really great way to engage, and we believe that will be a great product that helps, again, the engagement around the character, Belle, for children.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Interesting. So I want to make a quick note, if you do have questions, please do pass them forward, we've got about 15 minutes left of Q&A. And I'll start working in the couple that I have here. In the meantime, I wanted to talk a little bit about broader consumer trends, I guess, retail specifically. Retail sector, at least from an investor's perspective, has been a little choppy, to say the least, this year as foot traffic has sort of dwindled in various different categories. Can you remind us what percentage of your sales are dependent on sort of brick-and-mortar relationships? And how reliant is your business on sort of just generalized foot traffic?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Yes, I think, foot traffic is only one measure of the retail environment. What we've seen, overall, is our POS this year has grown in low double digits on average globally, high single digits in the U.S., double digits internationally. Our online POS has grown at 3x that rate, so a roughly 30% growth, so we're clearly seeing in both places. We are seeing great successes with our major global retailers, the Walmarts of the world, the Target, Toys "R" Us as well as Amazons. Internationally, in Russia, places like Russia, Detsky Mir is a great global partner for us, and really bringing the brands to life in a multitude of ways. So I'd say, overall, the consumer is in okay shape. Overall, we're seeing the industry grow, as I said, about 4% growth year-to-date, Easter to Easter, remembering that Easter was in a different time place in the first and second quarter versus each year, but if you take it through April in both years, the industry was up about 4%. And our business continues to track really well. I mean, clearly, there are certain categories of retail that are more challenged, but what we're seeing is a pretty good consumer picture. There are a few places around the world where there's some challenges, a few countries throughout -- in Europe, the U.K. has been a little bit challenging. And we see that on and off, depending on currency exchanges and devaluations of currency in Brazil and some other places, but the team -- the underlying growth in our market share and what the team is doing there has been very, very positive and our market share has grown.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Got it. That's helpful. I'm going to ask a question that is a little risky, perhaps on my part, but there are at least 2 or 3 cards here that would like your input on this. So the general theme is, how have you been so successful and maybe some of your, I won't name them, competitors haven't? What is the secret sauce behind Hasbro that you figured out that others haven't?



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Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Well, look, I think, it began for us, I've been at the company 17 years, and as I said, I felt we were in the third inning. But that means about 10 years ago, we began to build this global Brand Blueprint around brand orientation, based on having global brand leadership. And so we have built this very agile model that's based on global consumer insights, proprietary insights and investment around that blueprint. And a lot of our shareholders have asked, couldn't we get a bigger operating return faster? And the answer is, maybe, but it would be short-term versus long-term and sustainable. And so we talk all the time about how we invest in our business and storytelling. You have to be in a story-led world because brands that have story have meaning, and brands that have meaning have value. And so many people have kind of found Hasbro over the last few years, and so I'd say, not tongue-in-cheek but just in a polite manner, we're sort of a 10-year overnight sensation. And so I would ask people to recognize that it takes a long time to create this model, and we're really just now at the starting gates of operating the model. And that's required a level of investment that we've run through our P&L and, yet, we've still expanded operating margins. So I think, the big difference is we looked out to the horizon line of where consumers and audiences were going back in '05 through '08, saw the advent of smartphones, saw the advent of social media and Facebook and saw what that would mean to young consumers, particularly. And then, how would we address those changing dynamics and how do we become a disruptor, an agile media company, an IP owner, we own no factories, we're an asset-light company, and that's in stark comparison to our next nearest competitors that many people in this room would say, oh, they're directly related to this other company. Well, we don't own any factories, we're asset-light, we are a storyteller and a media-oriented company with great proprietary consumer insights and innovative products that command a premium price. So very different than a lot of the traditional competitors that people have seen in this space. And this is just the launching point, a point of departure for us. We're really, as I said, in about the third inning.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

The strategy, inarguably, has done really well. How long would you say it would take for someone, a competitor maybe, or if you had to do it all over again, to recreate such a strategy?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Well, look, I think, 10 years of experience is enabling us to get to the next plays faster. Now that we understand the model, and we have it built and we have the capabilities, and as I've said, half of our workforce is new over the last 5 years, they're not the same kinds of capabilities that we had 5 years ago. The ability to have storytellers on board and technologists on board and integrated play expertise and VR expertise or AR expertise and people that understand, as brand leaders, how to bring together the orchestration of all that and media personnel who understand this what we call Hasbro Harmony, meaning what used to be 7 layers of marketing that was the old 7-layer cake of 7 layers of marketing have become 70 layers, that all has to do with a level of expertise, so it takes a certain amount of time. I think for us to get to the next level of expertise will take less time than to get to the first level. And clearly, you're seeing an acceleration in our business. But I really can't speak to how long it's going to take other people to do what we've done because I -- that's not really our focus. Our focus is the raft of brands that we still have and the level of room for growth that we have.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Great. And I promised I wouldn't ask about certain mergers or acquisitions, so I'll break that promise, though, but -- because the audience demands it, of course. But I guess, just generally speaking, maybe not about specific companies, but more broadly, does M&A in your space and your spaces, as we heard, somewhat loosely divided, I suppose, does it make sense? And in which ways would it?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Yes, I think that we remain open-minded to ideas that would add to that blueprint. Ideas that would be major accelerators to our ability to accomplish the strategy that we've set out, we've executed over a decade. Are there ways to accelerate that growth? So just to remind you, what does that mean? And our center of that is our brands, and we own 1,500 brands. We have no shortage of brands that are in the marketplace but we have far more brands on the bench, in our vault, waiting to be launched than we have in the marketplace today. So no shortage of brands. Then we have



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these immersive entertainment experiences. Are there ways to accelerate the way we tell story? Are there ways to accelerate digital gaming and platforms for gaming? Are there ways to accelerate our consumer products business to get great gross and operating margin out of the stories that we tell through consumer products licensees. Is there more of a global footprint that we could create around that blueprint by investing in certain places? So we are open to the idea of add-ons. You've seen us add Boulder Media, you've seen us add Backflip Studios. Years ago, in 2009 or '10, we added a joint venture with Discovery Communications for our kids network here. That kids network here has enabled us to unlock the placement of our shows globally based on the way global television stations work and how they look for a linear home for programming in order to put it on the air in a foreign or an international marketplace. So all of that's been very strategically thought out. And so we -- again, we remain open to that. But we have far more opportunity with our brands and really are not in the marketplace for other brands.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Got it. There's a question here, I'll try to paraphrase, about it seems like there's pretty strong convergence between companies that own IP and then where they play in the value chain in terms of media and license holding. How would you compare your strategy against like a Disney or a Universal, for example? Or how is that -- how are you becoming or not becoming more like those companies?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Yes, look, I think, what's important is, again, put it on a continuum from the consumer or audience perspective. Great IP comes from, now, a multitude of places, so take the spectrum of where IP is created. Could it be created from a book? Yes, of course, look at Harry Potter. Could it be created from a comic book? Well, of course, look at TRANSFORMERS or G.I. Joe or the Marvel business or, frankly, in the waiting in our business is Micronauts and Mask and ROM and Visionaries that were all comic books that are comic books today that have that pedigree and that DNA of that comic universe. Could they be great brand offerings in the future? Of course, they could. Could you create a brand of entertainment out of a toy or a plaything? Of course, we've seen it happen from some people in our space that have taken a form factor of play and turned it into entertainment. And so we've seen that. So what you have to look at is the consumer or audience continuum to embrace ideas and IP, don't look at it as the methodology of creating the story. And so, therefore, we can live on that continuum and can offer great stories about great brands and then bring that brand engagement to audiences and consumers globally. And we, as I said earlier, we feel that a direct relationship with retailers around the world is a strategic advantage because we can then create an array of product offerings that can be unique and differentiated to them and yet it's shared resources globally that gives us the leverage from a product development standpoint. So I'd say that, we [asked] many companies in this space, but all coming at it from each a different perspective from what their historical strengths have been.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Right. We've got 2 more audience questions we'll try to get through it in the time. One, about the, I guess, online commerce, e-commerce. How does that impact your strategy, particularly around holiday sales and the way that, that side of the business works?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Yes, what's great about online selling and e-comm is it's actually disrupting all of those traditional calendar ideas of holiday selling because we're now able to disintermediate the modular or the toy and game departments, those are still critically important. But we can also sell an array of products that may never appear in the toy and game department. 20% of our revenues today comes from the fan economy, from people over 15 years old, and that's because they're collectors and buying different price points of products, or the -- one of our favorite items that we talk about is the Captain America shield that's around a \$200 retail, that's actually a full replica, and that's for people who like cosplay, costume play and dress up and go to these conventions as a favorite superhero. So increasingly, whether it's an Iron Man helmet or a Captain America shield, we're selling those online. They might not find those ever in a toy department anywhere so you're able to sell those online. So disintermediating price points, the calendar, selling periods, lining up more with entertainment and brand initiatives is enabling us to grow our business in a differentiated way between brick-and-mortar and omnichannel.



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David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

So it's more than just POS data in Q4, right?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

That's correct. Yes, a lot more, exactly. But it makes it a fun category, it makes it a fun business to operate.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Great. And just I'll -- we'll end it with this one, what percentage of your revenue do you think could be completely digital, I guess, would be the right way to put it? Video games, digital, sort of device related in 5-years time? How big of an opportunity is that for Hasbro?

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

It's a -- well, it's a very big opportunity for us. You've seen great growth rates. The way we report our revenues is the U.S. and Canada segment, International and then Entertainment and Licensing. So inside of Entertainment and Licensing are digital gaming revenues, and those revenues have been growing. You've seen our E&L, our Entertainment and Licensing business grow pretty swiftly, and obviously, operating profit margins that are ahead of the company average operating profit margin. In fact, that total segment is about a 30-something percent operating profit margin, so twice that of the company, and growing at a very fast double-digit clip over time, over a long-term CAGR. So that business could be far bigger over time. Again, it goes back to being able to tell story around those brands and making and enabling the consumer to be engaged digitally with our business, but we also are using digital marketing in a number of ways, digital, social, listing and scraping in a number of ways to create those products that consumers really want and applying it to those trends. So digital now is almost in the backdrop of everything we do. So I don't think I could delineate a specific number because I think almost everything we're going to do in the future will be digitally enhanced, so it just becomes a one screen that we look at or look through as a way of looking at our business. It's not really a delineation between digital and analog.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Great. Well, with that, I think, we are out of time. I want to keep everyone on schedule.

Brian D. Goldner - *Hasbro, Inc. - Chairman and CEO*

Great. Thank you, guys.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Thank you very much.



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