Fourth Quarter and Full Year 2023
Financial Results Conference Call Management Remarks
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Kern Kapoor, Senior Vice President, Investor Relations

Thank you and good morning, everyone.

Joining me today are Chris Cocks, Hasbro's chief executive officer, and Gina Goetter, Hasbro's chief financial officer. Today, we will begin with Chris and Gina providing commentary on the Company's performance. Then we will take your questions.

Our earnings release and presentation slides for today's call are posted on our investor website.

The press release and presentation include information regarding non-GAAP adjustments and Non-GAAP financial measures. Our call today will discuss certain Adjusted measures, which exclude these Non-GAAP Adjustments. A reconciliation of GAAP to non-GAAP measures is included in the press release and presentation.

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.

These factors include those 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 Chris Cocks, Chris.

Chris Cocks, Hasbro CEO

Thanks Kern, and good morning, everyone.

For more than a year now, you've heard me outline Hasbro's strategy to refocus on play behind a philosophy of- "Fewer, Bigger, Better". Fewer SKUs that drive higher impact, Bigger investment behind winning brands in more focused categories, and Better innovation driven by a renewed leadership team and a focus on kids, parents and fans, our consumers, the lifeblood of Hasbro. We laid out a blueprint for a more focused and profitable company with a number of growth initiatives built on a diverse portfolio of some of the most iconic brands in the toy and game industry. While business transformations take time, I'm pleased with how much we accomplished in 2023, setting the table for a 2024 punctuated by strong profit growth and momentum in renewing Hasbro's innovation engine.

We're entering 2024 with a healthier balance sheet, a leaner cost structure and an operational rigor that will maintain and build on these improvements in the quarters ahead. In 2023 we took substantial action to bolster our balance sheet. At the end of the year, we closed our deal with Lionsgate on eOne Film and TV allowing us to focus our investments on higher return, play focused initiatives across Toys, Games and Digital. Proceeds from the deal allowed us to reduce our debt by approximately $400 million.

As we shift our Entertainment strategy to an asset light and partner led model, we took a $1 billion impairment – a non-cash item – in Q4 which reflects the sale of eOne and a change in outlook for the balance of our owned and operated production efforts. This shift frees up more capital for us to reinvest in toys, games and particularly our digital future. Between hard work from our sales and operations teams and some of the financial actions we took at the end of the quarter, we enter 2024 with inventories down over 50% YoY, which is well below 2019 levels. We also took steps to improve our structural profitability, exiting a number of low or negative profit businesses that we have shifted to a licensed-out model.

Finally, we are driving better than expected cost savings through our operational excellence work, unlocking crucial investment capacity as we seek to connect with fans of all ages and across all play patterns. Previously we communicated $350 to $400 million in annual run rate savings - we're updating our target to $750 million of gross savings by the end of 2025, with half of it dropping to the bottom line. This allows us to reinvest in our business, meaningfully improve our cash flows and return cash to our shareholders, which we are committed to continuing through our category-leading dividend. Since I became CEO in 2022, Hasbro has returned almost a billion dollars to shareholders and paid down over half a billion dollars in debt.

While 2023 was challenging and we still expect the toy industry to face near term headwinds, we believe we're taking the necessary steps to turn around our Consumer Products business. Wizards and Digital Gaming is coming off a banner year led by MAGIC'S *Universes Beyond*, the success of *Baldur's Gate III* from our partners at Larian, and *Monopoly Go!* from Scopely. 2024 is about returning Consumer Products to profitability, investing for long term momentum in games and driving significant improvements in Hasbro's bottom line fueled by operational discipline and renewed product innovation. In short, we're putting all the right pieces together to keep investing in our growth initiatives while expanding the ways our franchises reach fans through digital games.

We expect the next year will likely see continued headwinds in the toy category. We are exiting 2023 with our retail inventory down around 20%. While we think Hasbro's retail inventory is in a healthy position, across the industry a lot of older discounted inventory still remains in the market, the consumer remains value conscious, and we anticipate entertainment will be less of a tailwind in the year ahead behind a reduced box office slate. Anticipating these headwinds, we made necessary choices to get our cost structure and inventory positions healthy, accelerating a number of cost savings initiatives by several quarters.

Since I became CEO, we have significantly enhanced our consumer insights capabilities and upgraded our design and toy leadership. In 2024, we will see more and more of the resulting innovation improvements as these capability upgrades come to market across our portfolio. As such, we believe we're in a good position to at least pace the industry this year with innovation and share trends accelerating to ahead of market as we head into 2025.

Turning around a product pipeline is key – with the right people, and the right insights. At the end of the day, it's all about great product. In the back half of 2023, we started to see the first evidence of our new team and products working. Take FURBY for example. This was a product we took our time testing and iterating based on consumer insights. It paid off as FURBY was one of the top new toy introductions in 2023. We continued the FURBY craze in December with the launch of Furblets, another hit introduction, and I'm excited to continue building this franchise in 2024.

2023 was also a strong year for our TRANSFORMERS franchise on the back of the hit movie *Transformers: Rise of the Beasts* from our partners at Paramount, driving POS growth of 35%. We have some exciting activations planned as we celebrate the brand's 40th anniversary in 2024, as well as the star-studded animated movie, *Transformers One*, coming this summer along with fresh merchandise.

This year also marks PEPPA PIG'S 20th birthday – we'll be celebrating with new innovative products and an entertainment special featuring A-list talent Katy Perry and Orlando Bloom.

After gaining share in the arts and crafts category in 2023 with another strong year including our Ultimate Ice Cream Truck, the PLAY-DOH team continues to innovate. Expect more creative surprises and new cross brand collaborations in the year ahead.

In Action Figures, we are leaning into our category-leading collaboration with The Walt Disney Company for their Marvel Superheroes Assemble marketing campaign featuring new price points and products across our lines, including all new Preschool fun with Spidey and his Amazing Friends. For Star Wars, we are excited to expand our bestselling Lightsaber Forge Kyber Core Series and introduce our new $7.99 Epic Series 4" Action Figures. We saw an incredibly strong launch from Beyblade X last year in Japan from our partners at Takara-Tomy and are eagerly anticipating the US launch this summer, what we believe will be one of the hottest new toys of 2024. It's an exciting product that we think long time collectors and kids fresh to the franchise will be thrilled with.

The Blaster category continues to be under pressure but we also continue to believe this is a strong and enduring play pattern for fans of all ages. This year we will be introducing new innovation into the category featuring a new performance dart technology, pop off the shelf design and attractive pricing up and down the range.

Board Games continues to be a leading category for us and one we anticipate will grow in the year ahead. TWISTER AIR was the number one new game across the G10 markets in 2023 according to Circana thanks to an innovative new augmented reality experience. You are going to see a renewed focus on expanding genres, leveraging our reach and distribution strength to introduce more cool new games than ever, and working with some of the brightest designers in the industry to give their games a platform they deserve. Whether it's adult party games, family card games, casual strategy or extending mega hits like MONOPOLY, 2024 will be a big year for gaming from Hasbro.

Speaking of games, Wizards and Digital outperformed our guidance in 2023 driven by a series of blockbuster hits. MAGIC had another record year in 2023 with a string of amazing new sets, including our best-selling set of all time, *The Lord of the Rings: Tales of Middle-Earth*. While a product like *Lord of The Rings* creates a tough comp in 2024, we have some unique sets that fans are eagerly anticipating including March's Fallout, a new Commander focused *Universes Beyond* product line, this summer's Modern Horizons 3, the sequel to our prior best-selling set of all time, and this September's charming new world, Bloomburrow.

We continue to see the power of our franchises play out with our digital licensing partners. *Monopoly GO!* from our partners at Scopely is the #1 mobile game launch of all time in the U.S. - outperforming the launches of global phenomena like Pokemon GO and Candy Crush, and the fastest mobile title to reach $1 billion in the US. And the game continues to break records - in Q4 alone, the game drove more than $800M in revenue worldwide for Scopely. As far as our financial participation goes for revenue and profit, it's like having the equivalent of a billion-dollar movie supporting MONOPOLY….except every year, with the impact growing sequentially as the game works through our minimum guarantees and marketing allowances. *Baldur's Gate III* from our partners at Larian continues to win awards around the world and is one of the highest rated video games of all time. We expect a long tail into 2024 and beyond for this mega hit.

Last but not least, we have a compelling new line up of adventures, core rule books and new digital-first offerings for D&D as we celebrate this iconic brand's 50th anniversary. We'll launch the biggest update to 5th Edition since its introduction in 2014, reinventing everything from the artwork of our iconic monsters to new classes, to new mechanics, to bold new ways to bring to life the world of D&D digitally.

All of this will add up to more and more impressive product as the year goes on leading into an even brighter 2025. We look forward to sharing more about 2025 – all new brands, entertainment collaborations, and a chance to really show what this team is capable of – later this year.

Wrapping up. 2023 was a challenging year but not without significant wins, wins we believe augur the Hasbro to come, a company rededicated to play, innovation and fun for fans of all ages. Last year, we launched a top toy with FURBY, we won a Game of the Year award with TWISTER AIR, and we wowed tens of millions with *Monopoly Go!*, *Transformers: Rise of the Beasts*, *Baldur's Gate III* and MAGIC: Lord of the Rings. All while cleaning up the business, selling eOne, paying down debt, and clearing excess inventory, which makes for a healthier, stronger Hasbro to start 2024. I'm excited to see the results to come.

I'd like to now turn over the call to Gina to share more about our detailed results and to provide guidance for the year. Gina?

Gina Goetter, Hasbro CFO

Thanks, Chris, and good morning, everyone.

2023 marked an important milestone in our transformation towards a more streamlined and profitable Toy and Game company. As Chris mentioned, transformations take time, and amidst a tough industry backdrop I'm proud of the progress the Hasbro team made over the past several quarters in resetting the business and getting us in the best position for 2024. Before I touch on the financial highlights from the past year, I want to recap three major actions we took and how to think through their impacts.

First, we successfully closed the sale of the eOne Film and TV business to Lionsgate, and we used the proceeds to reduce debt by $400 million, which will result in annual interest expense savings of approximately $25 million. In addition to reducing our leverage, the sale of eOne frees up capital to invest in higher growth initiatives, while allowing us to continue monetizing Hasbro IP in an asset-light structure. In conjunction with the sale and the change in the business strategy for Family Brands, namely PEPPA PIG and PJ MASKS, we recorded a non-cash goodwill and intangible asset impairment of approximately $1 billion which you will see in our reported results. As we look to 2024, besides the reduction in interest expense we also expect to see an improvement in operating margin, as well as an improvement to cash flow given the reduction in production spending.

Second, in Q4 we accelerated efforts to clean up our excess inventory. As I had mentioned last quarter, we were focused on starting 2024 in a cleaner position and would remain agile in taking actions consistent with broader category momentum. While we landed within our revenue guidance, we did not see the holiday season pick-up that we were hoping for and as a result took more aggressive actions in bringing inventory levels down over 50% from the prior year. Our inventory is now running well below pre-pandemic levels, and we believe this improved position will allow us to drive higher value retail distribution and return focus to upcoming toy and game innovation. We also expect annual savings of roughly $10 million from exiting overflow locations previously used to store excess inventory. And while this was the right decision for the long-term health of the business, the near-term impact from accelerating this clean-up resulted in a roughly $130 million-dollar non-cash impact to operating income.

Lastly, as part of our Operational Excellence program, we made the difficult decision in Q4 to reduce the size of our workforce. While these decisions are never easy, this move will enable cost savings, which will improve profitability and fuel investments towards long-term growth around toy and digital games innovation.

Moving to our financial results and business segment highlights. In Q4, we saw a continuation of the trends seen throughout much of the year.

- Total Hasbro revenue of $1.3 billion dollars was down 23% versus last year.

- Wizards of the Coast and Digital Gaming revenue increased 7% behind ongoing contributions from the award-winning *Baldur's Gate III* and *Monopoly Go!*

- Consumer Products declined 25% due to the planned business exits, broader category declines, and an enhanced focus on clearing inventory.

- Q4 Adjusted operating loss of $50 million was down year on year mostly driven by non-recurring and non-cash charges of $168 million which includes the $130 million of inventory write-off.

- We believe the clean-up efforts are behind us as we are starting 2024 at much healthier levels compared to prior years and our retail inventory is at an acceptable level.

- Q4 Adjusted Net Earnings were $52 million, with diluted earnings per share of $0.38, also down vs the prior year primarily due to the aforementioned non-recurring charges.

For the full year 2023,

- Total Hasbro revenue of $5 billion was down 15% versus 2022 and within our previously stated guidance range.

- Wizards of the Coast and Digital Gaming revenues grew 10 percent, ahead of our guidance, benefiting from the success of *Baldur's Gate III*, MAGIC THE GATHERING and *Monopoly Go!*

- Consumer Products revenues were down 19% for the full year driven by planned business exits, softer industry trends and stronger inventory management on behalf of our retailers.
    - Adjusting for the exited brands and markets, revenue would have declined by 15%
    - And despite the tougher category backdrop, we delivered some bright spots within our toy portfolio including TRANSFORMERS, TWISTER AIR, FURBY and G.I. JOE

- On a reported basis, the Entertainment Segment revenue declined by 31% as the writer & actor strikes impacted content deliveries. Family Brands revenue grew 6% from streaming deals of animated content in support of Hasbro brands.

- Total Hasbro Inc 2023 adjusted operating profit was $477 million, down 48% vs last year primarily driven by the non-recurring expenses as well as lower revenues.

- 2023 Adjusted Net Earnings of $349 million, or $2.51 per diluted share was down 44% versus last year. Besides the charges for inventory, earnings were negatively impacted by content impairments and higher royalty expense, partially offset by our cost savings program and a one-time tax benefit.

- Operating Cash Flow for the full year was $726 million, well ahead of our guidance and nearly double from the prior year driven mostly by a working capital benefit of approximately $350 million due to the inventory clean-up efforts.

- We ended the year with $545 million in cash on our balance sheet and reduced debt by approximately $500 million. We also returned $388 million of capital to our shareholders via dividends.

Before I move to guidance for 2024, I want to frame how we are thinking about the year ahead from an operational perspective, and in particular, how we're looking to turn around the consumer products business. In 2023 we took the necessary steps in our transformation to reset the business. This year with the right foundation in place we are focused on reinvigorating innovation across the portfolio while continuing to drive operational rigor, which we expect to pave the way for sustainable profitable growth.

The near-term model that we're building is one where cost productivity provides the fuel to innovate and grow the business. And in 2024 there remains a significant opportunity to improve the underlying profitability while rebuilding its innovation engine. These two go hand in hand and align with our overarching strategy of focusing on Fewer, Bigger, Better brands. Over the past several quarters we have been mobilizing around this imperative and taking actions to simplify and prioritize resources on our largest portfolios and biggest bets. One of the single-biggest contributors to complexity reduction relates to our product portfolio. Moving into 2024 we have eliminated about half of our SKU's. These SKU's were only 2% of our revenue, and were duplicative and unprofitable, clogging the network and creating cost for us and our retailers.

Along similar lines, we made the decision to move to an out-licensed model for brands where we determined their respective path to scale and profitability as an owned and operated entity did not meet our internal threshold. In 2024 FURREAL FRIENDS and EASY-BAKE OVEN will transition. While there are short-term impacts to revenue from this model shift, we ultimately can expect greater operating profit dollars from out-licensed IP and it allows us to focus resources back to our core brands.

In 2023 we started the work to streamline our supply chain and improve the efficiency of the organization, and in 2024 we will be continuing these efforts by reaching further upstream to unlock value in our product design and manufacturing processes. We are taking an organization-wide focus across the supply chain, brand teams, product development, procurement and manufacturing, to identify waste and redefine the right design-to-value equation for each product.

Ultimately this will culminate in higher margins and contribute to an improved play experience. We started this work last year on select brands within our HASBRO GAMING portfolio and will be rapidly extending this approach to two of our biggest brands, NERF and PLAY DOH.

Also, within our supply chain we are building new capabilities within planning and forecasting to ensure that inventory levels, both owned and retail, remain within the desired thresholds. We made significant progress coming out of 2023 and these updated processes and tools will ensure that we maintain a healthy inventory position.

Since coming on board at Hasbro I have talked about the imperative to bring costs down within managed expenses to stop the dynamic of overhead growing faster than revenue, particularly within the Consumer Product segment. In December we announced the next round of actions to address the organizational structure. We have also introduced zero-based budgeting as a tool to help us optimize our spending and ensure dollars invested are driving the right actions and are in support of our strategy.

And finally, we are continuing to enhance our capabilities around consumer insights, revenue growth management, and marketing effectiveness as core drivers in strengthening our foundation and enhancing product development. Looking forward to the 2024 holidays, we have more innovation compared to last year that's backed by insights and stronger pricing precision. This, coupled with stronger planned execution with our retailers, will enable Q4 growth across the Toy business.

Turning to guidance for 2024 and looking more closely at the two main operating segments.

- Total **Wizards Revenue is forecasted down 3 to 5 percent**. The decline is primarily a result of the strong growth delivered in 2023 behind the launch of *Baldur's Gate III* and the MAGIC: *Lord of the Rings* set. Looking at each of the pieces:
    - We are planning for growth within D&D with the upcoming update of the Fifth Edition and the continued expansion of D&D Beyond.
    - MAGIC will have the same number of releases in 2024 as last year but revenue will be flat to down as we comp *Lord of the Rings*. It's important to call-out that MAGIC will be back to growth in 2025 as we expand our *Universes Beyond* lineup.
    - Licensed Digital Games will be relatively flat. The revenue from *Baldur's Gate III* will begin to taper down as we move through the year and will be partially offset by the continued momentum of *Monopoly Go!* With the success of the game, we are now anticipating that we will begin to record revenue higher than the contract minimum guarantee in the back-half of the year.

    - From a phasing standpoint, we expect Wizards revenue to grow in the front-half with the decline coming in the back-half as we comp the huge launches.

- **Wizards operating margin will be between 38 and 40%**, which will be up 200 to 400 basis points versus last year. The margin improvement is a result of a favorable mix shift within digital, lower royalty rates across MAGIC and strong cost management within operating expenses. Margins are also benefiting from supply chain cost productivity more than offsetting the inflation.

- **For Consumer Products, Revenue will be down 7 to 12 percent.**
    - About half of the decline is due to actions we've taken to improve profitability, including the planned business exits, as well as a reduction in unprofitable close-out revenue given the significant inventory clean-up executed at year-end. The other half of the decline is a result of prevailing category trends.
    - Overall, we are planning to grow share in the categories in which we compete and are leaning into innovation green shoots with step-ups in HASBRO GAMING, Beyblade, PLAY DOH, FURBY and NERF. And we are also adopting a more agile approach with our marketing dollars to better target consumers and increase the effectiveness of the spend.
    - We are forecasting revenue trends will improve as we move through the year with steeper declines in Q1 and Q2 and stabilization coming in the back-half of the year behind innovation, marketing effectiveness and maintaining healthy retail inventory levels heading into the holidays.

- A key focus for 2024 is **improving the profitability of Toys** and we are forecasting operating margin to be between 4 to 6 percent, which is 500 to 700 basis points better than last year.
    - Approximately 400 basis points of improvement is driven by the lap of the non-recurring inventory charges and this is almost completely offset by the anticipated volume declines and associated deleverage impact.
    - The additional margin expansion is driven by a combination of favorable product mix due to less close-out volume, supply chain cost savings more than offsetting inflation, reduced complexity across the network, and operating expense reductions.
    - Margin will also be positively impacted from the work on SKU elimination and design-to-value, which I mentioned earlier.

- For Entertainment, stripping out the impact of the eOne divestiture, revenue will be down approximately $15 million versus last year and operating margin will show significant improvement driven by operating expense reductions, as well as lapping the impact of the D&D movie impairment in 2023. We will continue to report Entertainment as a separate segment for 2024, albeit on a much smaller base.

As part of the 2024 guidance, we are increasing our gross cost savings target through 2025 from the $350 to $400M communicated in December, to $750M. Through 2023 we have delivered approximately $220M of gross cost savings and anticipate a sizable step-up as we move through the next two years.

Roughly half of the gross cost savings will drop to the bottom line as we focus on improving profitability, and the remaining dollars will be reinvested back into the business to support growth initiatives, including the reinvigoration of Toy innovation and the continued investment in the gaming business.

With the improvement in operating margin across all the segments, Total Hasbro Inc EBITDA is forecasted to be $925 million to $1 billion dollars, up $215 to $290 million versus the prior year. The positive impact from the cost structure reset, as well as the lap of the 1-time inventory clean-up in 2023, is more than able to offset the revenue decline and cost inflation.

We are planning for relatively flat owned inventory levels in 2024 and estimate approximately $225M of project capital to support growth initiatives and invest back into the infrastructure as we continue to rebuild the underpinning of the operation.

Ending cash will be slightly down versus 2023 driven by relatively flat owned inventory levels, increased capital project spending, and additional costs associated with the restructuring actions announced in December.

From a capital allocation standpoint, our priorities remain to first, invest behind the core business. Second is to return cash to shareholders via the dividend and third to continue progressing towards our long-term leverage targets and pay down debt.

As you heard Chris mention, we remain committed to our category-leading dividend and believe that the changes that we've made within working capital to free up cash, as well as the changes we're making on the broader cost structure provide enough cash flexibility to deliver on the capital allocation priorities.

The Board has declared our next quarterly dividend, payable in May. And, keeping consistent with industry best practices as we move through 2024, we will be shifting the declaration of the dividend to more closely align with the record dates.

And to close, looking out beyond 2024 we expect that the Consumer Products business will return to low single digit revenue growth and that Wizards will return to mid to high-single digit revenue growth. With our step-up in cost savings, we remain committed to getting to 20% operating margin, with the potential to reach that milestone before 2027.

And with that, I'll turn it back to Chris to wrap-up.

Chris Cocks, Hasbro CEO

Thanks, Gina. Turn arounds take time and for our toy business we are still in the early innings. While we are likely to face some near-term industry headwinds in 2024 and we are comping a better than planned 2023 for Wizards, the work we have done under the hood to strengthen our balance sheet, upgrade our planning and right size our inventory are a strong foundation to build from. I want to thank the teams at Hasbro for driving this and putting our fans first. This year is all about execution as we build on that foundation, drive our profitability and reinvigorate our innovation pipeline for category share gains in 2024 and renewed topline growth in 2025 and beyond. We'll now pause to take your questions.