Hasbro First Quarter 2019
Financial Results Conference Call Management Remarks
April 23, 2019

Debbie Hancock, Hasbro, Senior Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me this morning are Brian Goldner, Hasbro's Chairman and Chief Executive Officer, and Deb Thomas, Hasbro's Chief Financial Officer. Today, we will begin with Brian and Deb providing commentary on the Company's performance and then we will take your questions.

Our 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.

During the first quarter we realigned our segments and began reporting the digital gaming revenue associated with our Wizards of the Coast brands, including *Magic: The Gathering Arena* and several other games, in the renamed Entertainment, Licensing and Digital Segment. As a result, for the first quarter of 2018, $10.4 million of digital gaming revenues and $3.2 million of operating profit were reclassified from the U.S. and Canada Segment to the Entertainment, Licensing and Digital segment. The full-year 2018 revenue reclassification is expected to be approximately $58 million.

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 Brian Goldner.

Brian Goldner, Hasbro Chairman and CEO:

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

The global Hasbro team delivered a good quarter and start to the year. Revenues increased 2%, and absent a negative $24.3 million impact of foreign exchange, grew 6%. New initiatives and innovation overcame tough comparisons with last year's first quarter.

Our long-term investments in growth opportunities provided a meaningful contribution from our digital and e-sports initiative, *Magic: The Gathering Arena*, as well as growth in MAGIC: THE GATHERING tabletop revenues. Additional gains came from several other brands including Franchise Brands PLAY-DOH, TRANSFORMERS and MONOPOLY.

We are beginning to see improvement in our commercial markets, notably in the U.S. and Europe. In Europe, revenues grew 8% absent the impact of foreign exchange. For the full-year, we continue to expect revenue stabilization as well as profit improvement for the region and the first quarter is in line with this plan.

Point of sale comparisons will remain challenged through the first half of the year as Toys"R"Us moved into liquidation in the U.S. during week 11, late in the first quarter of last year. In addition, Easter was later this year, shifting from the first quarter into the second quarter. Absent Toys"R"Us, global point of sale for the quarter was down approximately 10% and in line with our expectations. As consumers began Easter shopping and new initiatives came on shelf, including NERF FORTNITE and Hasbro's line for Marvel's *Avengers: End Game*, point of sale improved posting positive Easter to Easter comparisons in the U.S.

Retail inventories are of good quality and good levels, increasing in certain markets and brands as retailers prepared for Easter and new launches in April, including several entertainment initiatives as well as Hasbro's POWER RANGERS line launch in North America.

Throughout the quarter, the global team did an excellent job managing expenses and we began to see the benefit of our cost savings initiatives. We delivered operating profit in the quarter and EPS of $0.21 per share. While most of the year is ahead of us, we remain on track to deliver profitable growth for the full-year 2019.

Our outlook is anchored in innovation and execution around higher margin growth opportunities and key brand initiatives, many of which launch later in the year. We are leveraging our expertise and brand portfolio to drive unique gaming experiences. This kicked off with great success at our premier MAGIC: THE GATHERING Mythic invitational at Pax East in March. John, Deb and I were on hand to see the team lead a tremendous event, which generated 2.7 million viewer hours on Twitch and paid out a million-dollar prize pool.

Engagement with MAGIC: THE GATHERING is growing – in both digital gaming and analog tabletop. In store player growth increased double digits, and grew at an even higher rate for new players. The latest Magic card set, *War of the Spark*, was unveiled at Pax East and drove over 10 million views of the trailer, shattering the previous record. In stores in early May, *War of the Spark* is currently available for digital preorder in *Magic: The Gathering Arena* and launches this week. *Magic: The Gathering Arena* is performing well, with over 700 million games played to date during the open beta with the average player spending 8 hours per week in the game. We will be further supporting the game with additional tournaments and marketing support as the year progresses.

As discussed at Toy Fair, we are also expanding the MAGIC: THE GATHERING franchise to reach a broader audience through an entirely new game, designed for mobile. The team launched this game, *Valor's Reach*, into test markets during the first quarter.

In our face-to-face gaming portfolio, MONOPOLY is coming off a record year and continued to deliver growth based on insight-driven innovation and on-trend editions. MONOPOLY CHEATER'S EDITION and MONOPOLY FORTNITE are performing well; MONOPOLY FOR MILLENNIALS is rolling out globally building off its success in the U.S; and we recently launched our *Game of Thrones* edition which is off to a good start as the hit HBO show enters its final season.

In addition to our unparalleled gaming portfolio, we are building on the growing popularity of gaming across all formats around the world. This includes leveraging our industry-leading position with NERF for our Gamer Series. We launched NERF FORTNITE late in the first quarter and it is off to a very strong start at retail. This new line joins NERF OVERWATCH within our new Gamer initiatives this spring. Throughout the year, the NERF team has an incredibly innovative line across price points, backed by compelling digital-first marketing and campaigns.

NERF FORTNITE launched exclusively on Hasbro Pulse with pre-orders in February and then rolled out to retailers. Hasbro Pulse is a one-stop destination to engage directly with our target consumers and deliver social media engagement, product development initiatives, content and commerce for fans.

To further our digital-first consumer approach we added a strategic position during the first quarter with the appointment of Jamie Gutfreund to the newly created role of Chief Consumer Experience Officer – or CXO. Reporting to John Frascotti, Hasbro's President and COO, Jamie will oversee global marketing with the directive to further build deep connections between Hasbro's brands and global consumers. Jamie joined us last week from Wunderman Thompson, where she served as Global CMO and helped establish the firm's reputation as a dynamic global digital organization.

Our investment in digital first, innovation and storytelling, has kept us as the #1 toy and game company in the U.S. and Canada on Amazon according to Edge Market Share. A recent example of how we leveraged our social channels to deliver content to commerce programs comes from *Star Wars* Celebration where we drove strong pre-orders for our

Exclusive Emperor Palpatine Black Series figure and the Black Series Luke Skywalker Electronic X-Wing Pilot Helmet.

Star Wars: The Rise of Skywalker is coming to theaters on December 20, and with the first *Star Wars* live-action series, *The Mandalorian*, premiering on Disney+ on November 12, and the *Galaxy of Adventures* animation for kids on multiple platforms, we will be supporting *Star Wars* extensively with new Hasbro product on shelf from October 4 as part of Triple Force Friday.

While our Partner Brands revenue was down in the quarter, robust entertainment for these brands builds throughout this year. In addition to *Star Wars*, Marvel's upcoming 2019 theatrical line-up includes the highly anticipated *Avengers: End Game* later this week and Columbia Pictures' *Spider-Man: Far From Home* in July. We are also very excited about Marvel's entertainment initiatives in support of kids and fans across key platforms like Disney+, Disney XD and Marvel HQ on YouTube.

For Disney Princess, we have an all new line at retail based on a new look from *Ralph Breaks the Internet* as well as *Aladdin* product supporting the upcoming May film. In addition, Hasbro's expansive line for the highly anticipated *Frozen 2* will be on shelf October 4th for the November film.

Also within the Partner Brands portfolio, BEYBLADE continued to perform well, leveraging new innovation and episodic programing to deliver another quarter of revenue and point of sale growth.

Storytelling across platforms is essential to building immersive brands. *Bumblebee*, currently available in home entertainment, along with our preschool, kids and fan oriented content, is driving revenue and point of sale growth for the TRANSFORMERS brand. Equally important, it is successfully introducing TRANSFORMERS to a new generation of kids and re-engaging our core fans around the world.

As we look ahead to the remainder of 2019 there is a lot of work to be done. Our teams are engaged and focused to deliver on our plan for profitable growth this year.

Now I would like to turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you, Brian and good morning everyone.

The team turned in a good start to the year, delivering revenue growth against a difficult comparison with last year and executing to deliver operating profit in the quarter. Hasbro is in a strong financial position with the ability to invest in our business for long-term growth, while managing costs and delivering on our planned net cost savings of $50 to $55 million for the year.

We ended the quarter with $1.2 billion in cash, while returning $128.5 million to our shareholders through our dividend and share repurchases. An 8% increase in the quarterly dividend takes effect for our next payment in May.

Within our segments, revenues in the U.S. and Canada segment increased 1%, behind growth in Franchise Brands, including PLAY-DOH, MAGIC: THE GATHERING, TRANSFORMERS and MONOPOLY, as well as growth in Hasbro Gaming and Emerging Brands. This growth was partially offset by declines in the Partner Brand category. We ended the quarter with good levels and good quality of inventory at retail. It is still early in the year, but we are encouraged by the positive signs in the business.

Segment operating profit for the quarter was $13.5 million. Last year's first quarter included $52.3 million of expenses associated with Toys"R"Us, which was primarily bad debt, and we reported a loss of $26.6 million. Adjusted operating profit last year was $25.7 million. The segment's operating profit in 2019 was adversely impacted by product mix; higher intangible amortization associated with POWER RANGERS; and start-up expenses in opening a new U.S. warehouse as well as investing in the Wizards of the Coast gaming brands.

International segment revenues declined 2%, including a negative $23.4 million impact of foreign exchange. Excluding FX, revenues in the segment increased 6% and were up in Europe, Latin America and Asia Pacific. Hasbro Gaming and Emerging Brand revenues increased. Franchise Brand revenues were flat as reported but increased excluding foreign exchange. Partner Brand revenues declined in the quarter.

The International segment reported an operating loss of $30.4 million compared to a $56.1 million operating loss last year, which included $11.2 million of expense associated with Toys"R"Us. The adjusted operating loss for last year's first quarter was $44.9 million. The smaller operating loss this year was driven by higher sales volumes, the benefit of cost savings, lower royalties and beneficial cost translation rates. This was partially offset by higher intangible amortization.

Finally, as Debbie mentioned earlier, we have renamed our Entertainment and Licensing segment as Entertainment, Licensing and Digital. We reclassified revenues of $10.4 million and operating profit of $3.2 million from the U.S. and Canada segment related to 2018. Reflecting this, segment revenues grew 24% this quarter. This was driven by revenues from *Magic: The Gathering Arena* as well as consumer product licensing.

Operating profit increased to $30.0 million, or 32.6% of revenues, driven by the higher revenue and lower amortization for film and television. This was partially offset by continued investments in the business, including in digital gaming initiatives for MAGIC: THE GATHERING.

Overall, Hasbro operating profit improved to $36.1 million, or 4.9%, reflecting higher revenue, a favorable contribution from our cost savings activities, lower stock compensation and good expense management.

Several of our expense categories were essentially in line with last year, however, royalty expense declined to 8.2% of revenues versus 9.7% last year. As a reminder, we incurred accelerated expense associated with Toys“R”Us in this line during the first quarter last year and the adjusted rate was 8.7%. The decline in royalties reflects lower Partner Brand revenues in the quarter.

Intangible amortization increased to $11.8 million as forecasted reflecting the POWER RANGERS acquisition.

Program amortization declined as we amortized less television and film expense this year versus last year, which included M*y Little Pony: The Movie* production expense.

Advertising increased to 10.5% of revenues versus 9.5% last year. We forecasted advertising to increase for the full year behind the launch of digital gaming initiatives, including substantial marketing and e-sports expense throughout the year. We continue to expect full-year advertising expense in the 10% range.

Last year, we recorded $59.1 million of bad debt expense related to Toys“R”Us in SD&A. Excluding this expense, SD&A declined approximately $25M reflecting the early benefit of cost savings, lower stock compensation expense, good cost management by our teams and a favorable impact from foreign exchange. At the same time, we had startup costs for a new U.S. warehouse and invested in our Wizards of the Coast business.

Turning to our results below operating profit:

Other income increased slightly, primarily due to a larger gain on foreign currency transactions and higher interest income.

Our underlying tax rate for the quarter was 18.5% versus 16.5% last year. The rate reflects the mix of jurisdictions where we earned profits and the impact of tax reform and is in the range of our full-year underlying guidance of 17.5% to 19.0%. Including discrete items, the first quarter's effective tax rate was 9.7%. We have recognized one-time events over the past two years that have provided considerable benefits to substantially lower our effective tax rate. Based on what we know today, we do not expect the impact of discrete events to be as significant as they were in 2018.

For the first quarter, earnings per share was $0.21.

Our balance sheet is strong and we ended the quarter with $1.2 billion in cash. We returned $79.3 million in dividend payments and $49.2 million in share repurchases. During the quarter, as outlined in our POWER RANGERS acquisition agreement, we paid $87.5 million to Saban Properties. $12.5 million remains in escrow and will be paid out during the second quarter.

Receivables increased 4% and days sales outstanding were 79 days, up one day from 78 days last year.

Inventories decreased 5% and were essentially flat with a year ago, absent the impact of foreign exchange. The quality of our inventory both on hand at Hasbro and at our retailers is good. Retail inventory in certain brands and markets increased in the first quarter ahead of Easter and several new initiatives launching during the second quarter.

Finally, effective January 1 of this year, we adopted the new lease accounting standard. As a result, we recorded operating lease right-of-use assets and operating lease liabilities on our Consolidated Balance Sheet as of March 31, 2019. The adoption of this standard did not have an impact on our Consolidated Statement of Operations or Consolidated Statement of Cash Flows for the quarter.

In closing, we are pleased with the start to the year. The team did a fantastic job driving revenue growth and managing costs. We will remain focused on both throughout the year as we support the new entertainment and brand initiatives coming to market over the course of the coming quarters.

We will now open up the call for questions.