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 an update on the Company’s response to the COVID-19 pandemic. 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. These statements include, among others, the impact of the coronavirus on our business, financial results and liquidity; our efforts to protect the health and well-being of our workforce, customers, consumers, manufacturers and suppliers; our efforts to ensure we have adequate liquidity; and our initiatives
to support our communities, including our global workforce, children and their families during these difficult times.

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.

Our global teams continue to execute well – working at distance and across businesses that are rapidly evolving. They are leveraging our experience, data, insights, and capabilities to address the ways in which this global pandemic has challenged us, and we are making significant progress in this third quarter, while we are headed toward a good holiday season. Our belief in the opportunity for Hasbro over the next few years has also intensified as we see this team in action during this challenging year.

While there is a great deal of unpredictability, the year so far is unfolding in line with the expectations we shared with you last quarter. The second quarter is expected to be our most difficult as we experienced closures in many of our third-party factories, at retail and in entertainment production which negatively impacted revenues. We believe the third quarter will improve from the second quarter, and we expect to make progress, but there are evolving situations that exist around the world. Finally, we are executing strong marketing campaigns and launching innovative new products to support what we believe can be a successful holiday season.

As a grounding principle, we remain focused on the four key areas we shared with you in April: demand, supply, liquidity and community.

Looking at demand, consumers continue to seek out Hasbro brands and our content at high levels. Global point of sale increased in the high-single digits and has continued to be strong as we enter the third quarter across an even broader array of our brands. Engagement in our content is, in several cases, at record levels. In recent months, the number of retail stores open has increased dramatically. We began the second quarter with approximately 30% or more of stores where we are doing business closed globally. Foot traffic was down in certain European countries by as much as 50% at the peak. Today, we are below 10% of retail closed globally, with the greatest impact in Latin America where approximately 25% of stores remain closed. These percentages are changing based on the ability to reopen economies and keep them open. We
expect Latin America will be a difficult region for us in 2020 given the impact of COVID-19 and the small percentage of business executed online.

Globally, ecomm grew rapidly as it represents where the consumer has the broadest access to the Hasbro brands they want. At nearly 30% of our toy and game revenue in the quarter, ecomm’s share of revenue expanded by nearly 13 percentage points. Our teams were ready to capitalize on this shift as we have been investing in building a digital-first organization for many years. During this time, we furthered our capabilities and exhibited great creativity and flexibility to meet the consumer where they want to shop. In addition to strong results from pure play and omni channel ecomm, Hasbro Pulse, our DTC channel, had a record quarter and implemented successful campaigns including Fan First Friday, which brings fans something new and exciting each and every week about the brands they love. Earlier this quarter, we launched what is now our most successful HasLab project ever: The X-Men Legends Marvel’s Sentinel. It hit our funding threshold in 24 hours and after 10 days has more than 11,000 backers for a $350 collectible item. While Pulse is still a relatively small revenue number, this connection with our fans is powerful, and will grow over time.

Demand remains strong for our games and PLAY-DOH, but the production shutdowns we discussed last quarter, which began in Mid-March and lasted until about mid-May, impacted our ability to fully meet demand during the quarter. In stock levels for games and PLAY-DOH were below our normal thresholds and we expect to be caught up later this quarter and ready for the holiday.

Production disruption also impacted certain product timing for delivery in the second half of the year. NERF saw growth in second quarter global POS as we quickly pivoted our strategy to capitalize on consumers looking for fun ways to get the family outside and active. In the U.S. and Europe, POS for the past several weeks increased double digits, but some of our second half launches have shifted about a month later due to the limited supply coming out of India.

In addition, as retailers moved to a digital model and stores were closed, their retail inventory requirements declined. In the U.S., retail inventories reduced in the high teens, which represented about 7 weeks of inventory. Similar shifts occurred in other markets. We believe the digital-led
model will continue, with ecomm today forecasted to be about 30%, or more, of our full year revenues. We also believe some retailers may exhibit caution as they gauge the rate at which markets reopen and shoppers return to stores. The industry continues to undergo a shift to fulfilling consumer demand, versus filling stores, and we are very well positioned.

Throughout this year, our retailers and our consumers have supported the toy and game category – and our joint plans with retail partners gives us confidence in our ability to deliver a good holiday season. We have all new initiatives, many more than I can cover here - including new products for brands with good momentum in gaming and NERF; as well as Disney’s Frozen 2 and Lucasfilm’s Star Wars where the properties have seen great consumer demand and have strong new lines, including the retail arrival of product featuring The Child from the Disney+ series The Mandalorian and the much anticipated Animatronic Edition arrives for the holidays.

MAGIC: THE GATHERING revenues were down in the quarter as forecasted. The brand is performing well overall and set up for a good second half of the year in both analog and digital play behind new card releases and the expansion of Magic: The Gathering Arena to mobile and into China.

Moving to supply, our supply chain is now in a good position. We have returned to production in our third-party factories. China factories were caught up in early second quarter, and we anticipate catching up on demand in other locations by the latter half of this quarter. Our global operations team has worked diligently to maximize our global footprint, shifting production to other locations where feasible and have re-forecasted the year based on the changes to mix and timing.

Next, liquidity. Hasbro is in a strong financial position and we ended the quarter with just over $1 billion in cash on our balance sheet. Our revolving credit line of $1.5 billion remains available and accessible. As the shutdowns have continued, we have taken cost out of the business in areas where we cannot currently operate, including making difficult decisions to furlough some employees and to simplify our commercial organization.

On the content side, eOne production is gradually returning. As a result of being unable to produce to our plan, our cash spend on content for 2020 is now projected to be approximately $450-$550 million. We will complete and deliver content this year, but our slate, and some
revenues will also shift into 2021. Demand for eOne content is strong and the team is doing good work, executing a successful virtual Cannes and developing over 100 film and 60 new TV projects, including Hasbro IP and new IP. We launched a new animated series on Netflix, Alien TV, and continued to develop and produce new content for Peppa Pig, PJ Masks and the My Little Pony 2021 feature film.

We have made great progress integrating our businesses, including combining our consumer products and entertainment teams, and remain on track to deliver the $130 million in synergies by year-end 2022. Importantly we are working to unlock the long-term value of the organization, as we develop new entertainment and commercial opportunities around Hasbro IP.

Finally, Community. Our focus on our purpose to make the world a better place for all children and all families has never been more important. Hasbro has continued to support global philanthropic initiatives that bring relief to children and their families worldwide during this crisis by providing meals as well as learning materials to those most in need. We remain deeply committed to using our brands, our resources, and our expertise to help make a difference in our local communities and around the world.

We’ve applied this belief to the ongoing dialogue across our Company around racial injustice, listening and looking within ourselves and our organization critically and honestly. While we don’t have all the answers, we have never been more committed to fostering a culture of inclusion and using our brands, our entertainment and our influence to make a difference in the world.

At Hasbro, we are in a unique position to help shape minds and hearts from the earliest age. We have the privilege of being part of childhood, fandom, and intergenerational play and entertainment, globally. With that privilege comes a responsibility to foster inclusion and to help teach the next generation that everyone is equal, and everyone is worthy. Making a difference in the world is our purpose and our legacy. We want every kid to feel like a hero. To see themselves on the screen, and in their toys and games. To feel they belong, and that they matter, irrespective of the color of their skin.

I believe we have strengthened Hasbro this year by rethinking how we have done things in the past and we’ve changed our approach going forward. We’ve remained invested in areas of high
consumer consumption and interest— in innovation, content, digital gaming and consumer products. We’ve strengthened our path to the consumer, leveraging our digital-first multi-channel strategy and our global retail footprint. We’ve increased our agility and speed to market, adapting Hasbro’s plans as initiatives shifted to next year and we are set to execute and deliver a strong 2021 across a robust line-up of entertainment and innovation— with entertainment from eOne and our partners, new gaming launches in digital and tabletop, and new play initiatives across our brands.

I’d now like to turn the call over to Deb.
Deb Thomas, Hasbro CFO

Thank you, Brian and good morning everyone.

As Brian said, our global teams have come together in 2020, and we are operating from a position of strength. As we forecasted and shared last quarter, the second quarter was extremely challenging but we are reassured by the strong demand for our products and our content; by our ability to reduce expenses and manage our cash; and by our team’s creativity and agility during these times.

We shared with you last quarter that up to 25% of retail could be closed during the second quarter, live action entertainment production would not return until the third quarter, MAGIC: THE GATHERING would have a difficult quarter due to tough comparisons based on release cadence a year ago and revenue timing, and that profitability would be challenging. We saw those realities come to fruition. Going forward, as stores reopen, entertainment production begins to return, MAGIC has meaningful launches in analog and digital and we execute our marketing plans for the back half of the year, we believe the third quarter is the beginning of the road to recovery and performance should meaningfully improve from the second quarter. We expect to be positioned for a good holiday season. The ability for economies to continue reopening stores and production – of both product and entertainment - and keep them open will be important factors in the year’s ultimate outcome.

My discussion today will be versus pro forma adjusted 2019 earnings and exclude eOne acquisition-related expenses, severance, and amortization. In our reported numbers, we reflected $26.5 million after tax of one-time acquisition expenses and amortization, or an impact of $0.19 per share, and $10.1 million after tax, or $0.07 per share, of severance expense associated with simplifying our go-to-market approach and our Film and TV businesses where operations have not returned.
Our integration with eOne remains on track and we continue to target synergies of $130 million by year-end 2022. This includes 2020 cost savings of approximately $20 million, before one-time expenses – recognizing the eOne business, like the overall Hasbro business, is not operating to our original plan due to COVID-19. These synergies are planned to increase in 2021 as we begin to insource toys and games for eOne properties and recognize more of the benefit of cost savings.

We continue to focus our organization around demand, supply, liquidity and community.

I will begin with Liquidity. We have substantial liquidity, ending the quarter with over $1.0 billion in cash on the balance sheet and $1.5 billion available through a revolving credit facility. We are well within our financial covenants. Our peak working capital period remains ahead coming in the October and November time frame. Since last quarter, we have reduced our expenses and we are closely managing our cash, including our customer collections. Throughout the second quarter, in certain markets and channels, some customers remained closed and the collection of certain receivables was delayed. We are seeing improvement as stores reopen and we are working closely with these customers to successfully navigate this period. As a result, DSO in the period increased to 96 days from 84 days on a pro forma basis last year. Second quarter 2020 receivables include approximately $207 million associated with eOne.

Our cash spend on content this year has been reduced as production is limited due to COVID-19. For the full year, we plan to spend within a range of $450 to $550 million which is approximately $200 million below our initial expectations for the year. This reflects a delay in spend, not an elimination, and we will be making these investments to develop content and drive revenues as we reschedule productions in 2020 and into 2021.

Our Capital Expenditures are expected to be approximately $145 to $155 million this year, in line with our first quarter update, and we’ve spent $64 million in the first half of the year. Tooling for our products remains the largest item and is timed to the back half of the year. This amount also reflects the capitalization of digital gaming development expenses relating to games to be launched in future years.
Inventory is essentially flat year-over-year including a small contribution from eOne. On a constant dollar basis, inventories were up approximately 5%.

Our next focus is demand. I will build on Brian’s commentary.

For the second quarter, revenues declined 28% absent FX.

In the U.S. and Canada segment, U.S. point of sale growth in the high teens did not translate to revenue growth due to temporary store closures, product shortages and lower retail inventories. Both pure play and omni-channel ecomm retail grew rapidly. Hasbro gaming revenue increased more than 20% and certain Partner Brands, notably Star Wars and Frozen 2, also grew. Despite lower expenses, operating profit declined on the lower revenues, including a negative mix impact from lower MAGIC: THE GATHERING revenue.

International segment revenues declined as well. Revenues were down in each region with Latin America declining the most meaningfully as the region started the year with higher retail inventory and has a very low penetration of ecomm. Similar to the U.S. and Canada segment, temporary store closures, product shortages and lower retailer inventory impacted shipments in the quarter. Select gaming and partner brands were up in the segment and ecomm revenues were up meaningfully. The International segment reported an operating loss versus operating profit last year as a result of the lower revenues partially offset by lower expenses.

In the Entertainment, Licensing and Digital segment, revenues declined due to the closure of Backflip Studios in late 2019 and lower consumer product revenues. In consumer products, we estimate as many as 60% of retailers were closed during the quarter. Many of these retailers continue to be impacted, and not all our licensees have access to ecomm and the supply chain that we do. We expect this part of the business will also be impacted in Q3. Profit improved in the quarter due to lower program production expense and lower expenses due in part to last year’s closure of Backflip Studios and the additional launch period advertising for Magic: The Gathering Arena.
In the eOne segment, while content demand by consumers remains high, revenue was hampered by the limits on live action production and delivery, along with lower consumer products sales, advertising revenues and live events. Operating profit in the segment increased due to lower program amortization, royalties and advertising expense this year versus last.

Third, let’s look at supply. As we outlined last quarter, production shutdowns in our factories during the second quarter impacted our in-stock levels, most notably in games, and delayed the delivery of certain second half 2020 launches. While factories in China, which represent 55% of our production, were open, factories in the U.S., Ireland and India were closed for much of the quarter. Production is back and operating, and the teams are targeting the latter part of the third quarter to be caught back up. This depends on being able to ensure production can continue and staffing is at adequate levels. One area to note is the cost of air freight is up substantially this year versus last. Should we air freight product to meet demand during the holiday period, this will increase costs.

As we close with community, we remain focused on our team’s safety, health and well-being and we recognize what a tremendous job our teams continue to do during what is a very challenging and uncertain period. They are showing great resolve and ingenuity to chart our path forward and provide support for each other and for the communities in which we are operating. There are learnings from this experience which will help define our Company and how we operate for years to come.

Before we open for questions, let me touch on a few expense items on a pro forma basis:

Gross margin increased 160 basis points, including both cost of sales and program production cost amortization, driven by product mix, including delivery of higher margin content and a reduction in program amortization, somewhat offset by higher sales allowances.

The decrease in advertising was driven by lower promotional spend at eOne due to the lack of theatrical releases combined with savings across all of our commercial businesses. We have
aligned our advertising to reflect the current demand environment, but also shifted the timing of spending and have meaningful promotional plans to drive consumer demand for the holiday.

SD&A was down $26 million, reflecting the cost savings initiatives we have undertaken across the business as well as lower freight and warehousing. Bad debt expense was up about $5 million within the commercial regions, reflecting the current environment. As in the first quarter, the alignment of accounting policies on cost capitalization and stock compensation resulted in higher admin costs for eOne. Within SD&A, approximately 80% of our dollars are fixed, resulting in a fluctuation as a percentage of revenue.

In closing, while we continue to see the year developing as we anticipated, there remains a great deal of uncertainty in the global marketplace that underlies this expectation. What has been consistent is the robust demand for our brands and content, and the strong execution by our global teams. We are positioning ourselves to execute a good holiday season, and to drive our business in 2021 and beyond.

Now, Brian and I are happy to take your questions.