Third Quarter 2024
Financial Results Conference Call Management Remarks
October 24, 2024

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.

Q3 continued to demonstrate the bottom-line benefits of the structural and strategic changes we are making at Hasbro. Two of our strongest profit areas, games and licensing, outperformed, expanding operating profit margin for the third consecutive quarter. The dynamics we're observing across MAGIC and D&D in both analog and digital reinforce our confidence in the long-term health of the brands. Our competitive advantage as an IP licensor is also gaining steam as we see the staying power of *Monopoly Go!*, the resurgence of fan favorite brands like MY LITTLE PONY and strong POS growth in our out-licensed toy portfolio.

Consumer Products revenue came in lighter than we anticipated, offset by strength in Wizards, but the pace of the decline moderated significantly versus the first half. We should see that trend continue into Q4. We're already seeing some encouraging datapoints across toys and board games that prove our innovation is getting sharper and retail alignment is healthy. While we are lowering our full year revenue guidance for the segment, we are seeing a solid return to profitability for this business. An improving bottom line coupled with strong fundamentals across the balance of our portfolio augur much improved profitability and cash flow for Hasbro both in 2024 and beyond.

This resilience in our business model has been years in the making, strategically shifting our mix towards games, digital, and IP licensing – the future of play. This is where the consumer is heading, and we're following our fans as they age up and look for their favorite brands on digital platforms. It's what will make Hasbro a diversified, modern, growing toy and game company. Gina will walk through more of the financials and our latest outlook, but first I'll offer some business insights.

MAGIC: THE GATHERING continues to be a standout, leading the trading card genre in growth YTD. This is despite big shoes to fill from last year's blockbuster *Lord of the Rings* set. In Q3, MAGIC posted another quarter of growth led by our tentpole releases Bloomburrow and the horror-themed Duskmourn, showing how MAGIC original IP consistently delights fans. *Arena* also posted solid growth driven by Bloomburrow and healthy engagement with the Standard format, with sequential upticks in new player acquisition rates and weekly average user counts.

Beyond the strength in tentpole sets, we saw outperformance in backlist, particularly Commander decks, as well as Secret Lair, including a sold-out Festival in a Box ahead of this weekend's MagicCon in Las Vegas. It's shaping up to be our biggest one yet and should be chock full of exciting new product announcements like the one we just did at New York Comicon with our partners at Marvel. Coming in December, MAGIC fans can get the first cards from our new collaboration with Marvel featuring themed Secret Lair drops for five of their favorite Marvel superheroes, including Iron Man, Black Panther and Wolverine. We are expecting each mini-set to immediately sell out.

For D&D, the updated Player's Handbook for fifth edition is now our fastest selling product in D&D's 50-year history, beating plan by over 50%. And our acquisition of D&D Beyond continues to pay off, driving D&D's total mix of direct-to-consumer revenue from zero at the time of acquisition to 60% today, with registered users more than doubling to 19 million.

I'm excited for fans to get their hands on the new Dungeon Master's Guide releasing next month - the new artwork is a hit and the streamlined introduction to running campaigns has been met with stellar early reviews.

Licensing continued to be a bright spot across Hasbro. *Monopoly Go!* is settling into a steady state, generating approximately $10 million in licensing revenue per month. Our partners at Scopely are continuing to innovate with new formats including third-party content from Marvel, and Tycoon Club, a new loyalty program to better serve its community of dedicated fans. Working with a best-in-class partner like Scopely helps position *Monopoly Go!* as a long-lasting mobile game at scale, and the team remains focused on driving user acquisition and retention.

Within Consumer Products licensing, our strategy to out-license brands in the toy space is performing ahead of expectations. Year to date, FURREAL FRIENDS and LITTLEST PET SHOP, two recent out-licensed properties, are showing over 50% year over year POS growth. Building on last quarter's strength, MY LITTLE PONY is having a resurgence through successful international partnerships across multiple merchandise categories, music, and collectible cards. And we continue to roll out some great products across platforms in partnership with Lego. For instance, Lego Peppa Duplo is now available in all markets. We also saw the release of the Lego Icons Bumblebee SKU ahead of our *Transformers One* movie release as part of Lego's "Adults Welcome" marketing campaign for Q4.

Toy revenue softness was due in part to our decision to sell less closeout volume in favor of higher profitability, as well as incremental softness in action figures, particularly Star Wars. We view action figures as a long-term bet for the Company and a place Hasbro has special strength from preschoolers to kids to adult fans so we are bullish about this segment's eventual return to growth.

One of our bigger bets for this holiday is Beyblade, which launched its fourth generation Beyblade X over the summer. Since turning on media just a few weeks ago, we've seen POS accelerate meaningfully with promotional events at our top retail customers and expect that to continue with a new anime series on Netflix and Disney. While we initially expected a bigger POS turn in Beyblade in Q3, we're excited to see it respond favorably in recent weeks and expect a strong ramp as awareness scales with kids.

Marvel is also seeing some nice increases on the heels of Deadpool & Wolverine, the new X-Men '97 animated series, and continued strength with Spidey and his Amazing Friends including our new hit preschool toy, Dance & Crawl Spidey. We're excited for 2025 with new Captain America and Fantastic Four blockbuster films on the horizon and building hype for Disney's blockbuster 2026 line up including Avengers: Dooms Day, a new Spiderman, and a new Mandalorian & Grogu Star Wars film helmed by blockbuster director Jon Favreau.

PLAY-DOH had its best back-to-school ever with POS up almost 20% and the classic color 4-pack rising to the number one position across the entire arts and crafts category. We're seeing good early momentum for the Pizza Delivery Scooter with strong top toy placement at our major retail partners.

We also have some exciting innovation for PEPPA PIG with Muddy Puddles Peppa, a top toy at Walmart and Amazon.

Last but not least, our Board Game portfolio is one of the earliest examples of our new focus on fast-to-market innovation across consumer segments. Whether it's our new MONOPOLY Harry Potter Board game for families, LIFE IN RETERRA, the new award-winning strategy game, ARSCHMALLOWS, a best-selling adult card game from Germany we are partnering with for international expansion – Hasbro is delivering delightful new products that are getting consumer attention and driving new sales.

Combined, we are pairing our new products with significant expansions of in-store promotions while boosting advertising YoY for our innovation bets to drive consumer demand. It's still early in the holiday but we anticipate continued improvement in our Toy business as we build the foundation for continued profit growth in 2025 and 2026.

To recap, I'm pleased with how Hasbro is executing. Our margins are up, our inventories are down and the healthiest they have been in seven years. Our cost structure is getting where we need it to be and our toys are showing up on shelf the best they have in years. Our key initiatives around digital, licensing and reinvigorating our product innovation are bearing fruit as we meet fans where they are.

While we are still mid-innings in our toy turnaround, 2024 promises to show a significant uptick in profit, cash flow and operational rigor for the company that will set us up for 2025 and beyond.

I'd now like to turn the call over to Gina Goetter to share more on our results and what you should expect for the balance of the year. Gina.

Gina Goetter, Hasbro CFO

Thanks, Chris, and good morning, everyone.

Our Q3 results demonstrated the increasing resilience in the Hasbro business model, underpinned by strength in Gaming and Licensing. While toy revenue fell short of expectations, we still saw a significant moderation in the decline as compared to the first half, while achieving the highest operating margin for the segment in three years.

Between strength in Wizards, licensing performance, and improvements in the underlying profitability of Toys, I'm encouraged by the healthier position Hasbro is in today versus the start of the year.

The outperformance in our Wizards segment has proven that our leadership positions in trading cards, role playing, and digital licensing continue to resonate. MAGIC delivered an all-around solid quarter across tabletop and digital for both tentpole and backlist content.

Consumer Products Licensing was a bright spot for the second straight quarter driven by MY LITTLE PONY trading cards, and a notable driver behind the CP operating margin expansion.

Our supply chain team delivered once again finding additional productivity wins, while our inventory has remained at multi-year lows, down 40% year-over-year. Our strategic decision to keep supply tight has resulted in a significant drop in closeout volume, which continues to be a gross margin benefit at the expense of CP revenue. This is a tradeoff we are consciously making as we continue prioritizing restoration of Toy profitability while sharpening our innovation to drive premium offerings to our retail partners.

Staying disciplined with our inventory across all our businesses is the right long-term decision for the company, but it also heightens the importance of accurate demand forecasting and supply chain agility. As we continue to upgrade our processes and systems, we are focused on strengthening that muscle to ensure we have adequate supply of the products our customers want.

As part of our transformation, we continue to look for opportunities to improve operational efficiency. As an example, we recently announced that within the CP Segment, our global brand and commercial teams will be coming together as one organization under the leadership of Tim Kilpin.

We are also expanding our Design team's scope, further integrating them with our supply chain and product development teams in Asia. By bringing the design process closer to the source we can bring products to market faster and allocate resources more efficiently across our portfolio.

A continuous improvement mindset is a key component of our broader transformation, and we will remain agile in adopting processes & structures to best meet the needs of all of our stakeholders.

Now moving to our Q3 financial results.

Total Hasbro revenue was $1.3 billion dollars, down 15% versus Q3 of last year. If you exclude the impact of the eOne divestiture, total Revenue was down 9%.

The Wizards segment declined 5% in the quarter as we lapped the launch of *Baldur's Gate 3*. Consumer Products revenue declined 10% driven by exited brands, reduced close outs and softer than anticipated volume, and the Entertainment segment declined 86% due to the eOne divestiture; absent this impact, Entertainment revenue decreased 17%, driven by deal timing.

Adjusted operating profit was $329 million, for an adjusted operating margin of 25.7%, up 2.9 points versus last year. Benefits from favorable business mix, supply chain productivity and reduced expenses were partially offset by volume deleverage within Consumer Products.

Q3 Adjusted Net Earnings were $244 million, with diluted earnings per share of $1.73, up $0.09 from the year ago period, driven by factors previously noted.

We returned $98 million to shareholders through the dividend and ended the period with $1.2B of cash and short-term investments, including the proceeds from the May debt offering which will be used to repay our November 2024 note.

Year to date total Hasbro revenue was approximately $3 billion dollars, down 18% versus the same period last year. If you exclude the impact of the eOne divestiture, total revenue was down 8% largely driven by the same drivers of Q3.

Year to date adjusted operating profit was $726 million, for an adjusted operating margin of 23.9%, up approximately 10 points year-over-year. We continue to deliver margin improvement despite the volume deleverage across the toy business.

Year to date Adjusted Net Earnings were $498 million, with diluted earnings per share of $3.56 and YTD Operating Cash Flow was $588 million, a $253 million improvement year-over-year driven by the noted profitability improvements and working capital favorability.

Now let's look at Q3 results within our two major segments, starting with Wizards:

Revenue declined 5% as growth in MAGIC: THE GATHERING and contributions from *Monopoly Go!* were more than offset by the anticipated decline in revenue for *Baldur's Gate 3.*

MAGIC grew 3% behind the releases of *Bloomburrow* and *Duskmourn* along with stronger results from backlist and Secret Lair.

Operating margin for Wizards finished at 44.9%, down about 3 points versus last year, driven entirely by the decline in licensed digital gaming.

Turning to Consumer Products:

Overall, Q3 revenue declined 10%. Lower volume from exited brands and reduced closeouts offset growth in licensed consumer products and volume increases in select brands, like TRANSFORMERS, Beyblade and FURBY. Continued softness in NERF and action figures, particularly Star Wars, also contributed to the decline in the quarter.

As we've mentioned we are continuing to prioritize profitable revenue. While our closeout volume was down about 70% year-over-year and contributed to about a fourth of the revenue decline for CP, it drove about 1.5 points of gross margin benefit.

Adjusted operating margin for Consumer Products was 15.1%, up 3.9 points compared to last year. Benefits from a more profitable licensing mix, supply chain productivity, fewer closeouts and reduced expenses offset the impact from volume deleverage.

On a year-to-date basis, despite the top line declining by over $300 million versus last year, we have absorbed the impact of deleverage and kept CP operating profit essentially flat. This highlights the significant progress we have already made in our turnaround and is a testament to our supply chain transformation and discipline on inventory and cost management.

Now turning to our guidance for 2024.

We now expect:

Total Wizards Revenue to be flat to down 1 percent, which is up from our prior guidance of down 1 to 3 percent. The improved outlook is driven by year-to-date outperformance, particularly within Magic.

Our outlook for licensed digital gaming largely remains the same with *Monopoly Go!* contributing roughly $105 million in revenue. We expect *Baldur's Gate 3* to contribute about $35 million for the full year, with most of that revenue recorded through the first three quarters.

As implied in our guidance, Q4 will see a more pronounced year-over-year decline driven by timing of set releases for MAGIC.

We continue to expect Wizards operating margin to be approximately 42%. This guidance also implies a step down in margin for Q4 entirely due to the planned revenue deleverage.

For Consumer Products, we now expect revenue will be down 12 to 14 percent, compared to our prior guidance range of down 7 to 11%. This change is partly a result of the Q3 shortfall, as well as a reduced forecast for closeout volume and action figures in the upcoming quarter.

As implied in our guidance, we expect Q4 to see a continued moderation in the pace of decline as we aim to stabilize the CP business.

We maintain our adjusted operating margin guidance of 4 to 6 percent. While this implies a quarterly step down in Q4 margin we should see significant year-over-year margin expansion as we lap last year's inventory clean-up efforts.

For Entertainment, adjusting for the impact of the eOne divestiture, we continue to expect revenue to be down approximately $15 million versus last year and adjusted operating margin of roughly 60%.

We remain on track towards our target of $750M of gross cost savings through 2025 and continue to expect $200M-$250M of net cost savings in 2024. Through the first nine months of the year, we have delivered $240M of gross cost savings and $177M of net savings.

Our total Hasbro adjusted EBITDA guidance remains unchanged in the range of $975 million to $1.025 billion.

And given the improvement in our cash flow, we now expect 2024 ending cash to be above year-end 2023 levels.

And 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.

And with that, we can open the line for questions.