Hasbro Fourth Quarter and Full-Year 2016
Financial Results Conference Call Management Remarks
February 6, 2017

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Joining me this morning are Brian Goldner, Hasbro's Chairman, President 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 fourth quarter and full-year earnings release was issued this morning and is available on our website. Additionally, presentation slides containing information covered in today's earnings release and call are also available on our site. The press release and presentation include information regarding Non-GAAP financial measures. 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.

Some of those factors are 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, President and CEO:

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

2016 was a very good year for Hasbro, with tremendous performance from the Hasbro team globally. Our excellent results reflect nearly nine years of investing in and executing our Brand Blueprint. Over this period, the blueprint has remained a constant, guiding our strategic decisions and investments while we build an organization with differentiated brands, capabilities and approaches to the consumer. The investments we are making and the cultural mindset we are instilling are not only delivering improving results but also creating long-term strategic differentiators for Hasbro. Through our consumer insight and story-led brand focus we are creating innovative play and compelling entertainment to successfully build Hasbro into a global play and entertainment company.

Revenues for the year increased 13%, topping $5 billion for the first time in our history. This included a strong finish to a strong year, with 11% revenue growth in the fourth quarter.

All regions contributed. The U.S. and Canada segment increased 15% for the year, the International segment gained 11% and the Entertainment and Licensing segment was up 8%. We grew in major developed economies including the U.S., UK, France, Germany and

Canada. Revenue also grew in emerging markets increasing 12% in constant dollars, with growth in Brazil, Russia, and China, among other countries.

Operating profit grew 14%, or 19% on an adjusted basis, outpacing revenue growth. Operating profit margin increased for the third consecutive year.

We returned $400 million to shareholders through our dividend and share repurchase program and ended the year with $1.3 billion in cash. Given our recent success and favorable outlook, the Board has declared a 12% dividend increase, to $0.57 per share.

For 2016, Hasbro's growth outpaced the overall market and, per industry data, we gained share in almost every country we track. This includes share gains in the U.S., UK, Brazil and Russia. We finished the year strong. Hasbro was ranked #1 in the industry for the month of December, among the top 9 markets tracked by NPD. We also grew to become the #1 company in the Brazilian market for the year, and, after taking over the number 2 position last year in Europe, we gained share across the region and were the top company in Spain.

Global point of sale increased 12% for the year, including an 11% increase in the fourth quarter. The U.S., Europe and Asia Pacific regions delivered double-digit full-year POS growth and Latin America was up in the mid-single digits. Online U.S. point of sale grew more than 3 times faster than total POS. Strong December consumer takeaway combined with continued momentum this year positions us well for 2017. Overall, we feel good about the level and quality of our inventories at retail across the globe as well as at Hasbro, where inventory finished essentially flat with last year.

There has been a great deal of focus on the performance of the toy industry and the read through for Hasbro's performance. Importantly, the industry is growing and continued to grow throughout 2016. Despite some shifts to later consumer purchases, we do not view and did not experience the season as different from other years.

As many of you know, when we speak about our business we focus on full-year performance. This is due to our long-term perspective toward developing our brands, the seasonal nature of the industry and the impact of many factors on weekly, monthly and even quarterly sales trends. These factors include the timing of launches, holidays, the number of days or weeks in a period, promotional activity, retail inventory and changes in share.

It is equally important to recognize that while publicly available data is directionally valuable, it does not represent the majority of Hasbro's global business.

First, this data is highly aligned to our more traditional U.S. retail toy and game business, but less so in many growing channels including club stores, grocery, drug and value channels.

Second, it does not capture hobby stores, where we execute more than 80% of our Wizards of the Coast business, including MAGIC: THE GATHERING.

Third, it misses the approximately 5% of our business in the Entertainment and Licensing segment including consumer products, digital and entertainment revenues.

We are a global business, with approximately 50% of revenues outside the U.S. Current industry data is concentrated in the U.S. While data is available for approximately ten global markets, it covers less than in the U.S. Importantly, if you are an investor reading publicly available data on the U.S. market, please be aware that this correlates to, at most, 35 to 40% of our total global revenues.

Finally, innovative, story-led brands appeal to global consumers and audiences. Not all brands will grow every quarter or even every year, but brands built on proprietary insights with real innovation, strong storytelling, and offered to consumers and audiences in the way they want anytime and anywhere, are the brands that will also deliver results and shareholder value.

For 2016, Hasbro brands and our partner brands delivered broad based growth across demographics and play patterns. We delivered innovative new offerings for the #1 global toy property, STAR WARS, and NERF grew to become the #2 global toy property.

NERF revenue increased in the mid-teens year-over-year and it remained the largest brand in our company; PLAY-DOH posted its 5th straight year of growth; and BABY ALIVE grew significantly. The Games category was up 9%, led by PIE-FACE and the 8th straight year of growth in MAGIC: THE GATHERING. There were several growing brands in our gaming portfolio which drove face-to-face gaming, off-the-board gaming and digital gaming. Our $1.4 billion gaming portfolio is unparalleled and addresses broader demographics and play experiences than any other company.

In digital gaming, Hasbro brands continue to perform extremely well. Mobile is the biggest and fastest growing piece of the gaming market. Hasbro's brands and gaming experiences coupled with our internal expertise and industry partnerships uniquely positions us to capitalize on this trend. New launches from Backflip Studios, including *TRANSFORMERS EARTH WARS* and *DRAGONVALE WORLD*, are performing well. To drive expansion in this market, we are now operating Backflip as a wholly owned subsidiary. The mobile gaming market is dynamic, and much has changed since 2013 when we first invested. During the fourth quarter, we recorded a non-cash goodwill impairment charge related to that investment. We remain committed to the team and investing to grow Hasbro's brands in digital gaming. Going forward Backflip will be focused on fewer, bigger initiatives, including new Hasbro branded games, and will continue to build our expertise in this important and strategic gaming market.

During 2016, we activated very successful launches of Hasbro's line of DISNEY PRINCESS and DISNEY FROZEN dolls as well as our DREAMWORKS' TROLLS line. Both new initiatives exceeded our initial expectations and were extremely well received by retailers and consumers.

2016 was also a good year for STAR WARS. It remained the #1 global toy property, according to NPD, and Hasbro gained share within the property. While Hasbro's global STAR WARS revenues declined slightly, we capitalized on the growing franchise driven by both *Star Wars: The Force Awakens* and the December release of *Rogue One: A Star Wars Story*. Innovation in action figures, role-play, vehicles and face-to-face games excited both fans and younger audiences globally. With a late December 2016 movie release, we have good quality inventory at retail. We are confident that we will work through this inventory, ship new innovative product and new assortments in the first half of 2017 and prepare for the release of *Star Wars: The Last Jedi* later this year. Our trade partners are excited about the movie, our innovation across segments and the promotional plans we are working on with them.

2017 has several additional theatrical releases across demographics and genres which retailers and consumers are getting behind.

In March, *Disney's Beauty and the Beast* hits theatres. In May, we will see *Marvel's Guardians of the Galaxy Vol. 2*; *Spider-Man: Homecoming* opens in July and November will see *Thor: Ragnarok*.

Significantly, Hasbro has two major films featuring our brands: *TRANSFORMERS: THE LAST KNIGHT* opening in June and *MY LITTLE PONY THE MOVIE* comes to theatres in October.

Powered by our all-screen, year-round storytelling, TRANSFORMERS had a strong finish to 2016, posting double-digit growth in the second half of the year and is well positioned for the next chapter of the TRANSFORMERS franchise.

MY LITTLE PONY revenues declined last year, but grew in the International segment. Brand engagement continues to build through multi-screen storytelling, and we have an innovative and robust line with new characters and worlds.

Retailers and consumer products licensees are significantly supporting both Hasbro films.

2016 showcased the extensive innovation and progress Hasbro is making every day. Our brand blueprint is delivering bigger opportunities and new thinking from our teams. Beginning with the first quarter, we will no longer report revenue along the Boys, Games, Girls and Preschool categories. Instead, we will provide a revenue breakdown of Franchise Brands, Partner Brands, Hasbro Gaming and Emerging Brands. We believe this is a more relevant and appropriate view of our business.

We hope to see many of you next week in NY for Toy Fair. We have amazing new initiatives to share, far too many to review today. As we begin 2017, we have already introduced an all new segment for NERF, NERF NITRO, which combines NERF blasting and innovative foam vehicles. We've also introduced an all new story-driven lifestyle brand, HANAZUKI. We launched this brand on You Tube with animated streamed content produced by Hasbro Studios. In the first three weeks alone it has over 49 million views.

We look forward to telling you more about these initiatives and many others at Toy Fair.

I will now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you, Brian, and good morning everyone.

The global Hasbro team delivered a well-executed year with robust and profitable growth across geographies and segments. The team managed difficult comparisons and economic conditions to grow revenues, operating profit, EPS and generate strong cash flow for the year. We continued to make strategic investments in our brands and our company to better position us for the future. Our strong cash position, enabled us to return $400 million to shareholders through dividends and share repurchase and the Board's 12% quarterly dividend increase announced today is further indication of our positive outlook and confidence in the performance of Hasbro.

We exited 2016 with good momentum, exceeding even our own expectations, and we are well positioned to execute against a strong 2017 plan.

For 2016, Games revenues grew 9%, Franchise Brands grew 2% and Partner Brands were up 28%.

Revenue also grew in each major operating segment.

In the U.S. and Canada segment, revenues increased 15%. Revenue growth in the Girls, Games and Boys categories more than offset declines in the Preschool category. Hasbro Franchise Brand revenues grew 3%, driven by growth in NERF and PLAY-DOH. Games grew 11%, including growth in PIE FACE, DUEL MASTERS and The SPEAK OUT game. BABY ALIVE revenue increased significantly. Plus, Partner Brand revenues increased 25%, behind contributions from Hasbro's line of DISNEY PRINCESS and DISNEY FROZEN, DREAMWORKS' TROLLS, and to a lesser extent, YO-KAI WATCH.

U.S. and Canada point of sale increased 11% in the year, including a 10% increase in Q4. Retail inventory is of good quality.

Operating profit in the U.S. and Canada segment increased 21%, to $522.3 million or 20.4% of net revenues. The team profitably grew Hasbro, with higher revenues delivering improved expense leverage, even with increased expenses and investments to support a growing business.

International segment revenues grew 11%, including a negative $58.4 million impact from foreign exchange.

Within the International segment, all product categories grew. Franchise Brand revenues increased 3%, with growth in NERF, PLAY-DOH, MAGIC: THE GATHERING and MY LITTLE PONY. Hasbro brands BABY ALIVE and PIE FACE also contributed to the segment's strong performance and Games grew 4%. Partner Brand revenues increased 31%, behind Hasbro's shipments of DISNEY PRINCESS and DISNEY FROZEN, YO-KAI WATCH and DREAMWORKS' TROLLS.

Point of sale grew across all three regions, Europe, Latin America and Asia Pacific, for both the year and the fourth quarter.

Operating profit in the segment increased 15% to $294.5 million or 13.4% of net revenues. Like the U.S. and Canada segment, the International segment continued to generate greater expense leverage while at the same time investing back into the business. Growth in higher profit brands, such as Franchise Brands, strong results from our hedging program, and effective cost controls mitigated the negative impact of currency exchange.

Entertainment and Licensing segment revenues increased 8% with growth in consumer products, digital gaming and the addition of Boulder Media.

Segment operating profit as reported decreased to $49.9 million, and includes a non-cash goodwill impairment charge of $32.9 million. Excluding this charge, operating profit increased in line with revenues, or 8%, to $82.7 million or 31.2% of revenues. Higher revenues and lower program production amortization were partially offset by investments in building our consumer products team globally and higher expenses at Backflip Studios in support of new gaming launches.

Boulder Media revenue and expenses are being recorded in this segment, and were slightly accretive to the year.

Overall Hasbro operating profit increased 14% and profit margin expanded 10 basis points versus last year. Adjusted for the non-cash goodwill impairment charge, operating profit grew 19% and operating profit margin increased 90 basis points to 16.4%. The strength of our revenue growth and our continued focus on profitably growing Hasbro more than offset investments in our business as well as higher expenses. With strong consumer takeaway in the fourth quarter, and all of our segments performing at a high level, we achieved better than expected leverage on our operating expenses.

Cost of sales for the full year increased 14%. We forecast cost of sales to be essentially in line with last year and ended the year up 30 basis points. Our discounts and allowances were not different than prior years and the increase was primarily driven by product mix, including a mix shift within our partner brands. As we have stated previously, different lines carry different costs, but also impact other line items such as royalties and advertising expense, often in inverse ways. This product mix shift drove an equal 30 basis point decline in royalties as a percentage of sales.

We continue investing in innovation and brand engagement to build differentiated brand experiences. For the year, while reflecting this investment through an increase in dollars, product development declined 20 basis points as a percentage of sales, and advertising increased 10 basis points.

Intangible amortization was lower as forecast, reflecting the full year impact of certain digital gaming assets being fully amortized.

Program production amortization declined slightly based on the timing of program deliveries. In 2016, we spent approximately $49 million in cash on television and film content development. We continue investing in differentiated storytelling and entertainment, including the 2017 *MY LITTLE PONY* animated feature and the launch of HANAZUKI.

SD&A increased as a percentage of sales including the $32.9 million non-cash goodwill impairment charge. Excluding the charge, SD&A declined 20 basis points year-over-year. During 2016 we had higher expenses associated with investments to profitably grow Hasbro for the long term. These include investments in MAGIC: THE GATHERING and our consumer products teams; higher depreciation from our investment in IT systems; and higher compensation expense associated with our stronger performance.

Turning to our results below operating profit:

Other income was $1.8 million versus $9.1 million last year. Improved earnings from our share of the Discovery Family Channel along with higher interest income and investment gains, were more than offset by higher expense related to foreign currency translation. Most of this impact arose in the fourth quarter, driven primarily by a steep decline in the British Pound and the steady strengthening of the US Dollar against the Euro. On a reported basis, 2015 included a $6.6 million gain from the sale of manufacturing operations. Excluding the gain, 2015 other income was $2.5 million.

The underlying 2016 tax rate was 24.5%, down from 26.4% for the full year 2015. The decline in the tax rate reflected higher U.S. based expenses and a higher mix of international sales. For 2017, our tax rate will be favorably impacted by the new accounting standard governing stock based compensation. We will outline the impact of this standard on our quarterly tax rates in more detail at Toy Fair next week.

Our diluted earnings per share for 2016 was $4.34.   On a non-GAAP basis, excluding the $0.12 per share goodwill impairment charge, adjusted 2016 EPS was $4.46 per share.

We finished 2016 in a very good financial position, including a strong balance sheet with robust cash generation.

The $775 million in operating cash flow we generated during 2016 allowed us to continue executing against our capital priorities of investing in Hasbro and returning cash to shareholders. In addition to the 12% quarterly dividend increase, we are currently targeting 2017 share repurchases in line with 2016 levels. These repurchases are subject to market conditions and availability of U.S. cash.

Receivables at year end increased 8% and days sales outstanding decreased 2 days to 73 days. Our accounts receivable are in good condition and collections continue to be strong.

Inventories at year end were essentially flat with last year, increasing $3.2 million. As we communicated, we built inventory during the year to meet our anticipated demand and strong revenue growth outlook throughout 2016. To begin 2017, we have good quality inventory, in the right brands and geographies. Running a global business, you will always find some challenges with certain brands, retailers or regions, but overall we feel good about the level and quality of our retail inventories and the strong December consumer takeaway has us well positioned to begin 2017.

In closing, 2016's strong performance was driven by a focus on our strategy and tremendous execution across the Hasbro team – in building great brands, telling amazing stories, listening to our consumers and executing with excellence while always investing to position us for future successful years.

Brian and I are now happy to take your questions.