Hasbro Second Quarter 2017
Financial Results Conference Call Management Remarks
July 24, 2017

Debbie Hancock, Hasbro, 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 second quarter 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 and CEO:

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

The Hasbro team executed another strong quarter. Story-led brands and innovative brand experiences drove double-digit revenue, operating profit and earnings growth. Brands that connect with global audiences and consumers in a meaningful way – through story and informed by consumer insights – are the brands that retailers support and they are the brands that our consumers engage in across our Brand Blueprint.

Quarterly revenues grew across all major regions, including growth in many developed markets such as the U.S., Canada, France, Spain, Australia and Mexico. Emerging market revenues increased 7%, led by growth in China and Russia. We also began operating from our new office in India.

While most countries are performing well; the UK and Brazil are facing challenging macroeconomic issues impacting both consumers and retailers. This is having a near-term impact on revenue and operating profit in the International segment, but our full-year outlook for the segment is positive. On average, 90% of our operating profit in the International segment comes in the second half of the year and while we expect both countries to face challenges going forward, the rest of the markets have been performing well.

Global point of sale increased in the low teens for the quarter and through the first six months of the year.   North America and Europe POS also increased double-digits in the second quarter and first half.

According to industry data, through the month of May, Hasbro remained the #1 company across the G11 countries.

On a reported basis, Hasbro's Franchise Brand revenues increased 21%, with growth in TRANSFORMERS, MAGIC: THE GATHERING, NERF and MONOPOLY. Retailers and consumers continue to support Hasbro brands backed by stories and innovative, cross category merchandise programs.

The TRANSFORMERS franchise performance was strong, fueled by robust multi-screen entertainment. We are successfully executing our strategy to develop and leverage entertainment for multiple audiences and screens. This is emblematic of how we are executing across the Brand Blueprint. In total, global point of sale for the franchise is up significantly not only versus last year but also against 2014, the last movie year.

In February, we projected that MAGIC: THE GATHERING would see greater growth from releases in the second and fourth quarters. MAGIC had a strong second quarter and the franchise was up in the first half. Importantly, the digital future of MAGIC: THE GATHERING is progressing and we look forward to sharing more with you in August at our investor day.

NERF continued to grow, behind strong increases from the launch of NSTRIKE ELITE with ACCUSTRIKE and continued growth in MODULUS and RIVAL. Global POS trends remain strong. The all new NERF NITRO had a limited launch in the quarter and the full rollout is planned for August.

The MY LITTLE PONY franchise is well positioned for the October 6th release *of MY LITTLE PONY THE MOVIE*. Consumer engagement with the franchise remains high and global retailers are providing cross-category support for our innovative new line and expansive consumer products program. The combination of film, television, digital engagement and consumer products creates a deeply compelling 360-degree experience for both existing fans as well as fans in the making.

Our Partner Brand portfolio is also benefiting from strong storytelling and innovation. In addition to Q2 revenue growth, global point of sale for the category is up both in the quarter and through the first six months of the year.

STAR WARS is primed for a strong second half. Merchandise for *STAR WARS: THE LAST JEDI* hits shelves on Force Friday II, September 1. We are very excited about our range of innovation that will debut at that time in advance of the theatrical release of the movie on December 15.

The STAR WARS franchise remains a top property in the industry and we have an expansive line for the film, along with a well-received 40th anniversary line and the all new STAR WARS *FORCES OF DESTINY* celebrating the inspiring stories of iconic heroes from across the STAR WARS universe.

Hasbro's Marvel portfolio is also leveraging compelling entertainment, which drove higher revenues in the quarter. Hasbro's line-up for both Marvel's *Guardians of the Galaxy Vol 2* and *Spider-Man: Homecoming* are delivering strong performances. We will also introduce a line supporting the November 3rd theatrical release of *Thor: Ragnarok*. Marvel continues to raise the bar in storytelling, each year providing tremendous stories and characters supporting a bigger, more global and more sustainable level of business.

Consumer takeaway for DISNEY PRINCESS was strong and revenues increased in the quarter. Engaging multi-platform entertainment coupled with new lines are driving this business. In 2017, Hasbro's line has capitalized on new entertainment with product for *Moana, Beauty and the Beast* and in the fall we will unveil new *Tangled* items. In addition, this holiday we will be supporting the release of "*Olaf's Frozen Adventure*" with a global line of fashion and small dolls that are true to the story.

We are also supporting *Disney Channel's* original movie *Descendants 2* which aired on July 21st.

DREAMWORKS' TROLLS continued to connect with consumers and added to our year-over-year growth.

BEYBLADE is performing well and on track with our expectations for the first year of the property. With Europe and Latin America launching in the second half, we have strong retailer support and consumer takeaway. This includes an engaged digital audience with more than 100 million battles to date on the BEYBLADE app.

Digital play is contributing to the growth in brands and gaming had another strong performance this quarter. Hasbro's unique position in gaming is increasingly differentiating our brands and play experiences. We have a rich portfolio of game brands we are activating across platforms, and we continue to develop gaming insights. We have, and continue to build, the capabilities in house to create compelling gaming experiences for a multitude of consumer groups as well as an extensive network of partnerships across digital platforms. Global point of sale in gaming increased double digits in the quarter and we are launching several all new games this fall at retail and digitally.

Finally, in Emerging Brands, BABY ALIVE global POS increased double digits in the quarter and first half. Revenues were down slightly in the quarter, primarily due to Brazil, but are up over 50% in the first half and we have a strong full-year outlook.

In closing, our commitment to creating expansive brand experiences with strong stories and true innovation differentiates Hasbro's diverse global portfolio, across geographies, demographics and categories.

We are well positioned to execute against tremendous stories and innovation for the full year 2017 and beyond.

We look forward to seeing you on August 3 at our investor day in Burbank, CA. We will share our strategic approach to *Creating the World's Best Play Experiences* and how we continue to leverage our blueprint to create a modern, agile play and entertainment company.

I'll now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you, Brian and good morning everyone.

The Hasbro team delivered a strong second quarter – with double digit revenue, operating profit and net earnings growth. Operating profit margin increased 60 basis points on higher revenues, favorable mix and expense leverage. The 30% growth in net earnings delivered $0.53 of earnings per share. As forecast, Hasbro's adoption of the new accounting standard governing stock based compensation contributed approximately one cent per share.

Our outlook for both the third and fourth quarter is positive, and we have strong consumer momentum heading into the second half. Given the timing of entertainment this year, the rapid growth of e-commerce and our global retailers' focus on just in time inventory our expectation for quarterly revenue is a shift to later in the year. As a result, we believe the fourth quarter could represent a greater percentage of full-year revenues than historical norms and may be greater than the third quarter.

For the second quarter, revenues in the U.S. and Canada segment increased 16%. Growth in Franchise Brand, Hasbro Gaming and Partner Brand revenues offset a decline in Emerging Brands.

In total, U.S. and Canada point of sale increased double digits for the quarter and the first six months of the year. Retail inventory is of good quality.

Operating profit in the U.S. and Canada segment increased 41% to $81.6 million or 16.5% of net revenues. The 290-basis point year-over-year improvement was the result of higher revenues, a favorable mix led by growth in MAGIC: THE GATHERING and expense leverage.

International segment revenues increased 6%, including a favorable $2.4 million dollar impact from foreign exchange.

Within the International segment, Franchise Brand and Hasbro Gaming revenue growth offset a decline in Partner Brand and Emerging Brand revenues.

Revenues increased across all three regions, Europe, Latin America and Asia Pacific. Over the first six months, point of sale also increased in each region, and grew in Europe and Asia Pacific in the second quarter. Latin America was down slightly as the macro economic environment in Brazil remains challenging. As Brian mentioned, both the UK and Brazil are facing challenging economic conditions. We are seeing this impact both retailer and consumer behavior in both countries.

Overall, retailer inventories are of good quality. As we have mentioned in past calls, there are some countries with excess inventory and we took steps to move through this inventory in the second quarter, most notably in Europe.

Operating profit in the International segment declined 43% to $16.9 million, or 4.0% of net revenues. The decrease was primarily the result of the higher level of close outs and less favorable hedges in Europe and lower revenues in the UK, Germany and Brazil. Historically, the first half of the year only represents a small percentage of the segment's full-year operating profit due to seasonality of the business and the larger geographic footprint and related fixed costs.

Entertainment and Licensing segment revenues declined 1%. Growth in digital gaming, led by Backflip Studios, was offset by a decline in entertainment-related revenues. Boulder Media is contributing to the top line this year, but was offset by the timing of film and television revenues versus last year. Consumer product revenues were essentially flat in the quarter. We have robust consumer products programs for both TRANSFORMERS and MY LITTLE PONY in the second half of the year. We generally record licensed revenue in the quarter after it is sold at retail by our licensing partners.

Segment operating profit declined 18% on the small decline in revenues and investments in our global consumer products teams, partially offset by an improvement at Backflip Studios.

Overall Hasbro operating profit increased 18% and operating profit margin improved 60 basis points to 10.3% versus last year.

Cost of sales increased 15% to 37.9% of revenues. The positive impact of a favorable product mix and growth in MAGIC: THE GATHERING was more than offset by the higher year-over-year level of close outs I mentioned earlier. These close out sales have a lower gross margin and are part of our normal annual activity, but were more highly concentrated in the first half of this year compared to a year ago. This higher level of activity was aligned around marketing for entertainment windows, including movie releases late in the second quarter and several occurring in the second half.

In addition, as we said at Toy Fair, less favorable hedges also negatively impacted cost of sales.

Royalty expense increased 14% to 8.1% of revenue. Higher royalty expense was the result of higher Partner Brand revenues, but also a strong contribution from *Transformers: The Last Knight* movie product which carries some external royalties.

Our investment in product development remained flat year-over-year but declined as a percentage of revenues. We continue to invest in innovation at an industry-leading level.

SD&A declined as a percentage of sales to 26.4%. We generated leverage despite higher levels of certain expenses, including depreciation. We continue to expect full year SD&A to be in line with 2016, excluding the fourth quarter 2016 impairment charge, as a percent of revenue.

Turning to our results below operating profit:

Other income was $11.1 million versus income of $6.1 million last year. Other income compared to last year was driven by higher interest income and our share of earnings from the Discovery Family Network. Both items were in line with first quarter 2017.

The underlying tax rate was 24.7% down from 26.1% last year and versus the 24.5% for the full year 2016. The quarter included an approximate one cent benefit from our adoption of the new accounting standard governing stock compensation.

Diluted earnings per share for the quarter were $0.53.

Hasbro is in a strong financial position including a healthy balance sheet and good cash generation. We generated $877.4 million in operating cash flow over the trailing twelve-month period, ending the quarter with $1.4 billion in cash. We remain committed to investing in our business to further our strategic intent and drive long-term profitable growth of the company.

During the quarter we paid out $71.9 million for dividends and share repurchase, with dividends representing the majority. We continue to target approximately $150 million in share repurchase this year and had approximately $309 million available in our authorization at quarter end.

Receivables increased 20% and days sales outstanding increased 6 days to 78 days. The increase was the result of the timing of revenues in the quarter, as well as growth in revenues with longer terms and the impact of the closeouts mentioned earlier. Our accounts receivable are in good condition and collections continue to be strong.

Inventories declined 3% to $558 million and are well positioned to support our business over the remainder of the year.

We have a great deal of the year ahead of us, and the Hasbro global teams are focused on executing against strong brand innovation, robust entertainment and the dynamic market and retail environment in which we are operating.

Brian and I are now happy to take your questions.