First Quarter 2023
Financial Results Conference Call Management Remarks
April 27, 2023

Debbie Hancock, Hasbro, Senior Vice President, Investor Relations

Thank you and good morning, everyone.

Joining me today are Chris Cocks, Hasbro's chief executive officer, and Deb Thomas, Hasbro's chief financial officer. Today, we will begin with Chris and Deb 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.

Today's guidance assumes we retain the non-core entertainment film and TV business, notwithstanding, the current marketing process. While there is no guarantee of such an outcome, if this process results in a sale, we will update our guidance.

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 Cocks, Hasbro CEO

Thanks Debbie and good morning.

Six months ago, we unveiled our strategy for Hasbro, highlighting three priorities: focusing on fewer, bigger brands and initiatives; building our consumer insight to grow share and drive innovation; and improving operational excellence to fuel bottom line health and strategic reinvestment. It's a plan that recenters Hasbro on what has made us great for the past 100 years and which will serve as our foundation going forward: Play.

Put simply, play is what we do and as we celebrate our 100th anniversary, 2023 is about refocusing our teams to drive renewed leadership in toys and games, right sizing our entertainment investments and driving fundamental improvements in our organization to deliver long-term success.

With our strategy top of mind, let's review our Q1 results.

As anticipated Q1 revenue was lower year-over-year but ahead of expectations, driven by continued positive performance of Wizards of the Coast and Digital Gaming and another strong growth quarter for MAGIC: THE GATHERING. Revenue for the quarter was $1.0 billion, a year-over-year decline of 14%. Adjusted Operating Profit was $47.2 million and adjusted earnings per share were $0.01.

Wizards and Digital Gaming net revenue increased 12% year-over-year with growth in both MAGIC and D&D. MAGIC: THE GATHERING was a standout performer, growing 16%, particularly impressive given its 40% growth in Q4. The fundamentals of MAGIC, Hasbro's first billion-dollar brand, are strong with new player growth, player engagement and player sentiment all pointing in the right direction. We expect the positive momentum for MAGIC to continue with Q1 also seeing one of our most successful pre-orders ever for our upcoming *Universes Beyond The Lord of the Rings: Tales of Middle-Earth* set which will launch in late Q2. Given our release calendar, we expect revenue for MAGIC to be down in Q2 but up solidly in Q3 and for the full year.

Consumer Products revenue declined 23% year-over-year. Point of sale was down for the quarter but improved from Q4 despite exiting several unprofitable businesses and licenses. PLAY-DOH, PEPPA PIG, and Hasbro Gaming saw POS gains in Q1 and we drove late quarter growth in Action particularly in TRANSFORMERS as excitement mounts for the June release of the *Transformers: Rise of the Beasts* feature film. Beyond TRANSFORMERS, we have a blockbuster line up of content from our partners' brands helping to support sales in the back half of the year including

season 3 of Lucasfilms' *The Mandalorian, Star Wars Ahsoka, Star Wars: Young Jedi Adventures, Indiana Jones and the Dial of Destiny*, Marvel Studios' *Guardians of the Galaxy 3*, and Sony's *Spider-Man: Across The Spider-Verse*. Importantly, we ended the quarter with good progress on reducing retailer inventories and are on track for healthy improvements in our owned inventory in Q2 and Q3.

Entertainment segment revenues were off 19% driven by year-over-year shifts in release timing of new film and family brands content. Among new Hasbro content released, we debuted our new pre-school brand, *Kiya and the Kimoja Heroes*, on Disney Jr and Disney+ and launched with our partners at Paramount the new feature film, *Dungeons & Dragons: Honor Among Thieves*. D&D took the number 1 spot at the global box office in its release week and has become Hasbro's best reviewed film ever with an impressive 91% critics score and 93% audience score on Rotten Tomatoes. Based on the strong fan and audience response, we are expecting *Honor Among Thieves* to enjoy a long viewing life that introduces our newest franchise brand to tens of millions of new consumers globally via theaters, streaming and post theatrical sales.

Our Operational Excellence program continues apace. As we execute our plans, we expect the cost savings to grow over the coming quarters. In Q1 we achieved $35 million of cost savings. We continue to expect $150 million of run-rate gross cost savings this year, money we are using to reinvest in the business, offset margin impacts from inventory management programs and help us achieve our full-year target of 50-70 basis points of adjusted operating profit improvement.

We made significant progress in recasting our leadership team to drive our strategy. Gina Goetter, the CFO of Harley Davidson and 25+ year Consumer Packaged Goods veteran, joins us in May as our new CFO and leader of our global operations disciplines. Gina has a long history with corporate transformations which will serve Hasbro well. Tim Kilpin, a 30+ year veteran with leadership experiences across marquis toy, games and entertainment brands, joins us as our new President of Toy, Licensing and Entertainment. Jason Bunge, the former Chief Marketing Officer of Riot Games, joins us as our new global CMO bringing new marketing firepower for our games and data-driven growth initiatives. And Bertie Thompson, Chief Communications and Creative Officer at Notion and former communications executive at Meta joins us as our new Chief Communications Officer bringing cutting edge technology, social media, and financial markets communications expertise. These talented leaders join an extended leadership team hailing from technology, CPG, toys, games and entertainment companies to drive our strategy and build profitable blueprints across our franchise and partner brands.

Our growth initiatives continue to deliver. Hasbro's total games portfolio grew 2% in the quarter. Direct-to-Consumer revenues increased 21%, led by a 46% increase at Hasbro Pulse, our fan-focused direct-to-consumer ecommerce platform. And on Licensing we just announced our first ever agreement with Mattel including cross overs for Barbie and MONOPOLY, and Hot Wheels, Uno and TRANSFORMERS. Partnerships like this along with our previously announced licensing deals with Lego on TRANSFORMERS and D&D expand our brands, introduce our toys and games into new categories and leverage our own category leadership for new growth opportunities.

For the full year, we are maintaining our previous guidance of a low single-digit revenue decline and adjusted operating profit margin expansion of 50 to 70 basis points. We continue to expect Q2 to present headwinds as retailers return to traditional ordering and shipment patterns and release timings for new MAGIC sets favoring Q3 impacts Wizards of the Coast sales. We are cautiously optimistic with the progress we have made in Q1 but still maintain an outlook of a flat to down toy and games market where focus, share building and bottom-line health are Hasbro priorities.

On the sale of our non-Hasbro branded eOne Film & TV assets, we continue to be pleased by the progress and expect to provide an update in Q2.

In summary, while Q1 is just a start, we delivered ahead of plan, and continue to see steady progress in building our leadership team, focusing the Company and improving our operational fundamentals. MAGIC is strong, the fan economy is proving resilient, our entertainment calendar is robust and our growth initiatives are on track.

I'd now like to turn over the call to our Chief Financial Officer, Deb Thomas, to share more details.

Deb Thomas, Hasbro CFO

Thank you, Chris and good morning, everyone.

As Chris said, first quarter results were ahead of our expectations and position us to meet our full-year guidance. Wizards of the Coast, led by strong MAGIC: THE GATHERING demand, continued to perform well, our consumer products teams are working through retail inventory and setting for major entertainment releases and our Operational Excellence program is delivering savings and helping offset these expenses. As you know, the first quarter is a historically small quarter for our business, and most of the year remains ahead.

In Q1, our fixed cost base is disproportionate to revenue. This impacts our profit early in the year, but we see improvement in future quarters as revenue grows and as we begin to actualize more of our cost savings. In Q1, we realized an additional $35 million in savings and remain on track to deliver $150 million of run-rate savings in 2023.

In addition, this is a 53-week fiscal year, and the first quarter holds that extra week. This equaled $14 million of incremental expense on little revenue.

Given our first quarter, we now expect revenue in the first half of 2023 to be down approximately 16% versus our previously forecasted 20% decline. For the full year, we continue to expect a low-single digit revenue decline and 50 to 70 basis points of adjusted operating profit margin improvement.

We started the year with a cash balance of $513 million. $89 million of operating cash flow in the quarter was offset by non-operating outflows including $30 million of long-term debt repayment,

$53 million of capex led by investments in Wizards of the Coast for future digital gaming releases and a $97 million return of capital through dividends to our shareholders. We ended Q1 with $386 million in cash.

We forecast operating cash flow for the year in the $600 to $700 million range. We have sufficient cash flow and liquidity to operate our business, meet our capex needs, invest for growth, and fund our dividend.

At quarter end, inventory at Hasbro is up from year end due primarily to two items: the first being higher Wizards of the Coast inventories given the timing of releases this year, with *March of the Machine* released mid-April and *Universes Beyond The Lord of the Rings: Tales of Middle-Earth* shortly before the start of Q3. By year end, we expect Wizards inventories to be down. The second increase comes from our Consumer Products inventories. While we are working through owned inventory from year end, we purchased action figures to set at retail for upcoming entertainment launches, including *Transformers: Rise of the Beasts*.

We made good progress reducing retail inventories in Q1, and they are down from year end. We continue to expect it will take the first half of the year to work through the excess. The cost savings work we began last year are heavily weighted to our supply chain and are offsetting these costs resulting in slightly better cost of sales margins compared to Q1 2022. Once we work through the inventory and our sales allowances return to normalized levels, we expect those costs savings will begin to drop to the bottom line. This should begin in the second half of the year.

The sale of the non-core TV and Film assets is progressing, and while we expect to be able to provide an update on the transaction in the second quarter, a closing and related cash inflow is likely to happen in the second half of this year.

We will prioritize the sale proceeds of the entertainment assets toward paying down debt, lowering our overall debt levels, reducing our ongoing interest expense and improving our DEBT to EBITDA ratio. We continue to target Debt to EBITDA of 2 to 2.5 times and we remain committed to our investment grade rating.

Looking at our adjusted results for the first quarter, revenue came in ahead of our plan, with strong MAGIC: THE GATHERING demand and slightly better shipments in our Consumer Products business. Foreign exchange had a negative $15.8 million impact on revenues.

Cost of sales declined in line with revenue and decreased 10 basis points year-over-year. As I mentioned, the incremental expense for closeouts and allowances is being offset by Operational Excellence cost savings. Favorable product mix, behind growth in Wizards of the Coast and Digital Gaming revenue as well as CP licensing, contributed to improvements in cost of sales as a percentage of revenue.

Program amortization expense declined on lower entertainment deliveries in the year but increased 30 basis points as a percent of revenue.

Royalty expense declined on lower Partner Brand revenues as we exited certain licenses, and, to a lesser extent, from lower eOne revenues and title mix. In the second quarter, operating profit will be impacted as we expect Royalty expense of approximately 10% of revenue. This is an additional $45 million versus Q1 as we ship products in support of *Transformers: Rise of the Beasts* and MAGIC's *Universes Beyond The Lord of the Rings* set. For the full year we expect Royalty expense to decline from 8.4% in 2022.

Product development expense increased due to teams supporting our Wizards of the Coast tabletop and digital development who joined the Company in the back half of last year.

Advertising investment increased on support for *Dungeons & Dragons: Honor Among Thieves* within our entertainment segment and at Wizards of the Coast for both D&D and MAGIC.

Adjusted SD&A spend was essentially flat but increased as a percentage of revenue. Lower freight costs and cost savings from mid-Q1 workforce reductions were offset by higher investment in Wizards including personnel, organized play events such as conventions and tournaments, and marketing for upcoming releases.

As a reminder, we expect to achieve more normalized levels of incentive compensation in 2023 throughout the year which we estimate to be approximately $80 million versus 2022, with $65 million in SD&A and the balance in product development.

Due to the mix of earnings and lower income in the quarter, combined with discrete items, mostly relating to stock-based compensation, our adjusted tax rate for the quarter at 83.8% is not indicative of the year. The outsized impact from small discrete items will normalize with higher income. For the full-year 2023, we continue to expect our underlying adjusted rate to be between 20 and 21%.

Looking at our segments, Wizards of the Coast and Digital Gaming revenue increased 14% in constant currency. The team is focused on creating gaming experiences MAGIC and D&D fans embrace. Tabletop revenues were up 13% behind popular MAGIC: THE GATHERING releases. Digital Gaming revenue increased 9%, led by the addition of D&D Beyond.

As we continue to invest in Wizards of the Coast, operating profit declined 28% due to higher product cost, product development personnel costs, advertising expense, and costs supporting the return of organized play. We continue to expect full-year operating profit margin for the segment in the high 30 percent range, which reflects investment for future growth and expansion of our *Universes Beyond* products.

Consumer Products segment revenue decreased 21% excluding a negative $8.3 million impact of foreign exchange, $6.2 million of which was in Europe.

This performance was led by lower revenues in North America and Europe, partially offset by growth in Asia Pacific, Latin America and licensing.

The segment's adjusted operating loss is the result of lower net revenue, including higher allowances and close outs to sell through inventory. We expect these higher costs to continue in the second quarter. These items were partially offset by savings realized from the Company's Operational Excellence program, reflected primarily in costs of sales.

Entertainment segment revenue decreased 17% in constant currency. TV revenues increased behind scripted TV deliveries, including the new series *The Rookie: Feds*, and *The Rookie*, which ABC just renewed for a sixth season, *Yellowjackets* and *The Recruit* and lower unscripted TV revenue. Film revenues declined with fewer new releases in 2023 vs. 2022. Family Brands revenue declined due to content sales timing year-over-year, including several multi-year licensing deals executed in Q1 2022 that did not repeat this year. Music and Other declined as we exited the remainder of these businesses in late 2022.

Adjusted operating loss was the result of lower revenues, as well as higher advertising for *Dungeons & Dragons: Honor Among Thieves* partially offset by lower royalty expense.

As I said upfront, Q1 was a good but small quarter with a lot of the year ahead of us. Our outlook is predicated on a second half that improves year-over-year. We remain cautious about the macro and the consumer environment, but the timing of theatrical releases, a strong MAGIC release schedule, the return to a more traditional and back-half weighted shipment plan to retailers, innovation we have planned and will share more about this summer, and engaging retail and advertising campaigns to improve point of sale all support our view.

It is hard to imagine that this is my last earnings call as Hasbro's CFO. I have been here 25 years and we've been through the good and the tough. I've had the opportunity to work with outstanding people on amazing brands, and I know Chris, Gina, Tim and our entire team will take good care of Hasbro and its legacy. Thank you all for your support of Hasbro and for your partnership over the years.

Now, one last time, I'll turn it back to Chris.

Chris Cocks, Hasbro CEO

Before we turn it over to Q&A, I'd like to spend a minute thanking Deb Thomas for her 25 years of leadership at Hasbro.

I started at this Company seven years ago as the fresh-faced leader of an under the radar subsidiary called Wizards of the Coast. From my first day on the job, there was no bigger supporter of Wizards than Deb. She "got it" and was always there for a rookie helping me navigate the broader Company and giving me and the team at Wizards the support we needed to turbo-charge that business.

My story is the same story thousands of people across the Company have about Deb. She is the true definition of a servant leader, the first one in the office in the morning, the last one to turn the

lights off in the evening and a true believer in the power of our people and brands. Deb has been an invaluable partner who has helped Hasbro become one of the biggest and best companies in the Toys and Games and broader entertainment industry.

Deb, it has been an honor to work with, partner and learn from you over the years. Our Company and our shareholders owe you a debt of gratitude. On behalf of everyone at Hasbro, and especially me, thank you.

Now we will take your questions.