Third Quarter 2022
Financial Results Conference Call Management Remarks
October 18, 2022

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. Eric Nyman, Hasbro's president and chief operating officer; Cynthia Williams, president of Wizards of the Coast and Digital Gaming; Darren Throop, president and CEO of eOne; and Steve Bertram, president eOne Film and TV will join for the Q&A portion of the call.

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 Cocks, Hasbro CEO

Thank you, Debbie and good morning. We expected Q3 to be our most challenging quarter of 2022 based on product release and ship timings in our Consumer Products segment as well as release cadences in our games and entertainment businesses. Revenue for the quarter was $1.68 billion down 12% in constant currency and down 15% at actual rates vs. 2021. Adjusted operating profit was $271 million, or a 16.1% OP margin, down 31%.

Revenues were impacted due to innovation timing - including later product releases in NERF and Games this year vs. last; accelerated direct import shipments in our Consumer Products segment which shifted revenues from Q3 to Q2; and a release calendar more heavily Q2 and Q4 weighted for our Wizards & Digital Gaming and Entertainment businesses.

We've also seen the average consumer become increasingly price sensitive as the year has progressed impacting point of sale trends. Promotions and entertainment fueled demand have become increasingly important and will be key in the quarters ahead. For instance, our most recent Prime Day last week saw Hasbro volume increase mid-double digits year-over-year, among the top toy and game performances. The ongoing growth of key brands like PEPPA PIG and MY LITTLE PONY speak to the power of driving great entertainment to reach audiences and inspire demand. In Q4 we will be kicking off an unprecedented lineup of entertainment starting with Marvel Studios' *Black Panther: Wakanda Forever* and extending well into 2023.

Operating Profit margins were impacted by a combination of more aggressive close out actions in Consumer Products and the shift and mix of deliveries in our Wizards & Digital Gaming and Entertainment segments.

For Q4, we are projecting Hasbro's revenue to be approximately flat on a constant currency basis buoyed by growth in MY LITTLE PONY, PEPPA PIG, MARVEL, STARTING LINE UP, and key gaming brands in particular our Wizards and Digital Gaming segment behind one of our best Q4 MAGIC slates ever as we kick off the brand's 30th anniversary and celebrate Hasbro's first ever $1 billion brand.

Fourth quarter adjusted operating profit for the Company is expected to improve by mid-double digits year-over-year driven by a more favorable product mix, improvements in distribution, disposal of low profit non-core businesses and the impact of our new Operational Excellence program we announced at our Investor Day on October 4th.

For the year, we are expecting revenues for Hasbro to be flat to slightly down on a constant currency basis. We continue to expect adjusted operating profit margin to increase 50 basis points to 16%.

We also expect inventory levels to be up low-single digits year-over-year. We have a strong balance sheet and a plan that accelerates cash generation going forward. Deb will speak to this in more detail shortly.

At our Investor Day, we introduced our new strategic approach to our Blueprint, Blueprint 2.0, which positions us to accelerate growth with a focus on games, digital and direct and demonstrates our commitment to deliver superior shareholder return with a plan to grow adjusted operating profit by 50% by year-end 2025. This profit improvement will be driven by a focus on fewer, bigger brands with billion dollar potential, growing our high profit games and licensing businesses and driving significant savings via our Operational Excellence Program. This initiative will help us drive $250-$300 million of annual run-rate savings by year-end 2025, including a $50 million run-rate level already achieved in 2022 that is helping to fuel our bottom-line growth in Q4.

This management team isn't satisfied with our performance in Q3. Our new plan has already begun and will gather momentum over the coming quarters. Our high margin games business is on track for growth in Q4 anchored by a must-have MAGIC lineup, including the first time our fans can buy the iconic card the Black Lotus in over 25 years. We added the viral sensation *Wordle: The Party Game* for fans of all ages to our industry-leading games portfolio for this holiday.

We are innovating in key brands like NERF with our new Gel Fire blasters for fans 14 and older.

We will extend our growing leadership in high margin, high potential categories like pre-school with leading brands including PEPPA PIG and our products for Marvel's *Spidey & His Amazing Friends* as well as creativity with PLAY-DOH. Brands where we have revenue and POS momentum like the already hot selling PLAY-DOH Ice Cream truck.

And we will drive a multi-quarter flywheel of momentum with one of our best entertainment lineups ever, starting this November with Marvel Studios' *Black Panther: Wakanda Forever* and extending into 2023 with six more blockbuster films and 20 scripted and unscripted shows we are merchandising behind including the upcoming Hasbro event films, *Dungeons & Dragons: Honor Among Thieves* in March and *Transformers: Rise of the Beasts* in June.

The plan we laid out earlier this month has us on a path to drive growth and accelerated profits through focus and scale and enhanced operational excellence. We are concentrating on the brands that give us the biggest growth potential and where we can truly lead and innovate in the category. We will license out brands where we can make a greater return through a partner model, in some cases extracting value from dormant assets, and we will exit businesses that don't drive branded entertainment through our Blueprint 2.0.

We will pair this operational discipline and entertainment-fueled innovation with a continued emphasis on returning cash to shareholders and driving superior long-term shareholder returns. Hasbro's commitment to our category-leading dividend is rock solid and when paired with the potential of our brands, the growing impact of our Operational Excellence program and an outstanding entertainment lineup, we believe it positions Hasbro as an exceptional value for shareholders with strong near and long-term potential returns.

With that I will turn it over to our Chief Financial Officer, Deb Thomas. Deb.

Deb Thomas, Hasbro CFO

Good morning everyone.

The third quarter results reflect the timing shifts we had forecasted since early in the year. These include release timing for MAGIC: THE GATHERING card sets; entertainment deliveries; and several product launches in key brands happening in early fourth quarter as well as a shift in retail promotional periods. Foreign exchange has negatively impacted revenue by $104 million year-to-date, with $54 million of that impact in the third quarter. And, as we had projected, the macro environment for the consumer has been challenging – increasingly so as the year has progressed.

As we shared earlier this month, we have set an aggressive and achievable plan to drive profitable growth over both the near and long term. We are focusing on fewer brands, where we see the biggest potential. Essential in the delivery of this plan, is an Operational Excellence program to deliver $250 to $300 million in annualized run-rate cost savings by year-end 2025. We recorded a $55.3 million charge this quarter associated with the implementation of this program – primarily from the impairment of assets from non-core businesses we are exiting within the entertainment segment as well as severance and employee-related costs.

We continue to believe we can deliver a 16.0% adjusted operating profit margin for this year. This reflects the favorable mix of revenue and leaning into above average margin businesses like Wizards and Digital Gaming – including the continued activation of D&D Beyond which is expected to be earnings accretive in Q4. We coupled this with a heightened focus on bottom-line discipline including the Operational Excellence savings we are driving across our business.

Our balance sheet remains strong and is well positioned to meet demand in the fourth quarter. Our early commitment to inventory has impacted our cash generation in the near term. The quarter-end cash balance was $551.6 million, compared to $1.2 billion in last year's third quarter, with operating cash flows year-to-date of $262.2 million.

Cash is at a lower than historical level, and this is typically the low point in our cash balances during the year. We expect a lower cash balance this year end than 2021, as we have returned $125 million to shareholders through share repurchase, paid $289 million in dividends thus far, bolstered our digital strategy with the $146 million acquisition of D&D Beyond and repaid $73 million of long-term debt. Incremental year-over-year promotional activity is occurring behind our key holiday toy and game items to drive our newest innovation while also reducing inventory on hand at Hasbro and at retail. Overall, our inventory continues to be of high quality, but our goal is to work down the balance by year end and you'll see that in our outlook and results.

While cash at year end is projected to be below historical levels, our go forward plan accelerates our cash generation with a high-end target of $1 billion in operating cash flow next year, increasing annually off that level as we move forward toward our 2027 targets.

We remain committed to de-levering our balance sheet, maintaining our investment grade rating and are on track to meet our debt to EBTIDA target of 2 to 2.5X next year. We continue to return cash to you, our shareholders, through our dividend program and anticipate increasing share repurchase in future years.

Looking more closely at the quarter,

Operating profit declined in dollars and as a percentage of revenue from the same period last year. This primarily reflects lower gross margin on lower revenue. This is largely in our consumer products business, which incurred a greater amount of sales allowances in the third quarter of this year versus last, lowering net revenues, and higher product costs. Additionally, we increased provisions on some slower moving inventory in certain markets. The impact of foreign exchange had a pass-through effect of negative 3% on gross margin due to translation. These factors are reflected in a 380-basis point increase in cost of sales to revenue that was partially offset by lower program amortization on lower entertainment deliveries.

Lower entertainment deliveries in the quarter also resulted in lower royalties.

Product development increases reflect investment in key talent, particularly within Wizards of the Coast and Digital Gaming.

Advertising was down versus Q3 of last year which included spend behind the MY LITTLE PONY movie and we shifted our consumer product advertising spend closer to the holiday and closer to retailers' planned promotional periods.

Adjusted intangible amortization increased reflecting the D&D Beyond acquisition. This added $1.7 million in the quarter and is forecasted to be $7.5 million next year.

SD&A dollars declined in the quarter on an adjusted basis but increased as a percentage of revenue.

Below operating profit, non-operating income was $13.2 million up from an expense of $1.2 million last year. This was primarily the result of a favorable net gain on foreign exchange which we do not expect to repeat in Q4. Last third quarter we had a $9.1 million cost from the early repayment of debt.

The underlying adjusted tax rate, excluding discrete items, was 19.9% versus 23.4% last year, and we expect the full-year underlying rate in a range of 20.5% to 21.5%.

Looking at our segments,

Wizards of the Coast and Digital Gaming revenues declined 13% in constant currency. Tabletop revenues declined 9% as the result of release timing but are up 5% through the first nine months of the year. As Cynthia said earlier this month, we are forecasting double-digit growth for MAGIC: THE GATHERING this year led by strong growth in tabletop.

Digital and licensed gaming declined 37% based on release timing and reflecting the difficult comparison with the launch of the premium game *Dark Alliance* and the tail end of the launch impact from *Magic: The Gathering Arena* mobile last year. We continue to invest in digital gaming initiatives and talent to support long-term growth in the segment.

Operating profit of $102.2 million was down 36%. This reflects the revenue decline, higher costs in paper and freight, and incremental royalty expense with new *Universes Beyond* sets like Warhammer 40,000. We've also added the amortization of D&D Beyond I spoke to earlier. These costs were partially offset by lower launch-related product development, advertising and depreciation associated with *Dark Alliance* that released in 2021.

For the full-year, on a constant currency basis, we expect high-single digit revenue growth with operating profit margin over 40%, down from 42.5% for full-year 2021, as we continue investing for long term growth in these valuable brands.

Consumer Products segment revenues decreased 6% excluding a negative $40.0 million impact of foreign exchange, $31.1 million of which was in Europe.

Latin America grew 15% and Asia Pacific was up 10%, but this growth was more than offset by a 14% decline in North America and a 11% decline in the European region, which was flat absent foreign exchange.

As a reminder, for the full year 2021, our revenue in Russia was $115 million, with approximately 70% earned in the second half of the year. We do not have this revenue and associated operating profit in 2022.

The segment's 31% decline in adjusted operating profit is the result of lower revenue, higher allowances, price adjustments related to close outs and obsolescence expense associated with moving higher inventory levels.

For the full year, revenue is expected to decline low-single digits from full-year 2021 in constant currency, with operating profit margin down slightly from 2021's 10.1%.

From a brand perspective, each brand portfolio category in the segment – Franchise Brands, Partner Brands, Hasbro Gaming and Emerging Brands – declined in the quarter.

Key growth Franchises PEPPA PIG and PLAY-DOH were up – growing revenue and point of sale. MY LITTLE PONY consumer products revenue and POS grew a year after the movie debuted. Hasbro Products for Marvel and Star Wars positively contributed to revenue and POS in the quarter.

Where we've had our most challenging comps are NERF and Hasbro Gaming - two important areas where we have long-term growth plans. Chris spoke to several important new initiatives in these brands for the holiday and the team shared longer-term plans earlier this month at our Investor Day.

Entertainment segment revenues reflected the anticipated timing of deliveries and were down 34% in constant currency.

Film & TV revenue declined 26%. Last year we released films *Come from Away* and *Finch* direct to streaming and did not have any comparable films this year. Also *Yellowjackets* is later this year versus last.

Family Brands revenue declined 78% primarily due to the delivery of *My Little Pony: A New Generation* in the third quarter 2021 which did not have a comparable film release this year.

We have significant fourth quarter entertainment revenue for scripted TV including *The Rookie, The Rookie: Feds, Yellowjackets* and *Cruel Summer* and the launch of *Transformers: EarthSpark* on Nickelodeon and Paramount+, as well as continued animation for MY LITTLE PONY, PEPPA PIG and PJ MASKS.

Adjusted operating profit decreased 86% on the lower revenues and the mix of content. This was partially offset by reductions in program amortization expense, lower advertising versus the MY LITTLE PONY movie release and lower royalty expense.

For the full-year, on a constant currency basis and excluding music, we expect revenue to decline in the mid-single digits as we divest of certain non-core businesses, and certain deliveries of scripted TV and film releases move to the first quarter of 2023. Adjusted operating profit is expected to be in line with or slightly up from last year's adjusted operating profit margin absent music of 7.8%.

In closing, we are focused on driving our business in the fourth quarter – to meet consumer demand, end the year with clean inventories, and to achieve our run-rate cost savings. We expect full-year revenue to be flat to down slightly in constant currency and to expand adjusted operating profit margin by 50 basis points to 16%.

This also sets us up for the growth we are planning in 2023 and beyond. We have a plan that builds on our strengths – in branded entertainment, in gaming and in our direct-to-consumer relationships.

We have the brands, the team and the strategy to successfully execute this plan.

I'll now turn it back to Chris.

Chris Cocks, Hasbro CEO

Before we turn to Q&A, let me take a minute to recognize Darren Throop. Today is Darren's last earnings call as he is leaving Hasbro at the end of the year. Darren grew eOne into an accomplished studio with strong talent, a rich library of content and production capabilities across mediums. Over the past few years, he has served an invaluable role in the integration of eOne with Hasbro during an unprecedent environment. The D&D film next year and the robust pipeline in development is the direct result of his hard work. Thank you, Darren, for your leadership and we wish you tremendous success in the future.

Now, we will take your questions.