Hasbro Fourth Quarter and Full-Year 2010 Financial Results
Conference Call Management Remarks
February 7, 2011

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone. Joining me today are Brian Goldner, President and Chief Executive Officer; David Hargreaves, Chief Operating Officer; and Deb Thomas, Chief Financial Officer.

Our fourth quarter and full year 2010 earnings release was issued earlier this morning and is available on our website. The press release includes information regarding Non-GAAP financial measures included in today's call. Additionally, whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

This morning Brian will discuss key factors impacting our results and Deb will review the financials. We will then open the call to your questions.

Before we begin, let me note 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. These forward-looking statements may include comments concerning our product and entertainment plans, anticipated product performance, business opportunities and strategies, costs, financial goals and expectations for our future financial performance and achieving our objectives.

There are many factors that could cause actual results and experience 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, 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.

Now, I would like to introduce Brian Goldner.

Brian Goldner, Hasbro President and CEO:

Thank you, Debbie.

Good morning everyone and thank you for joining us today.

As we entered 2010, we shared with you our vision to continue re-inventing, re-imagining and re-igniting the industry's broadest portfolio of world-class brands. At the time, we characterized 2010 as a year of singles and doubles; meaning we were relying on growth from brands across our portfolio to drive our business following our very strong performance in 2009.

In 2010, we accomplished many elements of our strategy – growing market share across five of the 11 NPD super categories in the U.S. and six of the 11 NPD super categories in Europe; delivering significant growth in several re-imagined brands; and growing EPS for the 10th consecutive year.

A number of strong performances drove these accomplishments:

- Our International Segment turned in a tremendous year, posting 7% revenue growth. Product Revenues grew in every category – Boys, Games & Puzzles, Girls and Preschool. The emerging markets contributed strong growth and with continuously improving profitability helped support the International segment's 29% overall growth in Operating Profit, which increased both in dollars, up $47.5 million, and as a percentage of revenues to13.4% versus 11.1% in 2009;

- Globally, our Preschool category grew 13%, driven by continued strong growth in PLAYSKOOL, PLAY-DOH and TONKA;
- The Girls category increased 5% on strong performances from FURREAL FRIENDS, which more than doubled its revenues in 2010, as well as growth in BABY ALIVE and STRAWBERRY SHORTCAKE;
- In our Boys category, NERF extended its recent performance of strong year-over-year gains, increasing 51% to reach $414 million in revenue, making it our largest brand of the year;
- BEYBLADE was re-launched and is off to a very strong start in the U.S. and international markets;
- TONKA grew in 2010 helping us gain share in the vehicles category and our MARVEL business was up on the strength of IRON MAN;
- Finally, several re-imagined games brands turned in strong performances including MAGIC: THE GATHERING; SCRABBLE; CUPONK, BOP-IT and TOY STORY-related games.

Having said this, we did not grow revenues in 2010.   We believe the revenue shortfall was due to a convergence of a few negative factors late in the final quarter of the year and is not emblematic of our long-term business, which remains on track for growth in 2011 and beyond.

As you'll recall, in 2009, revenue for TRANSFORMERS and G.I. JOE topped $700 million through the immersive experiences we provided consumers for two very successful motion pictures. We knew that in order to grow our business in 2010 we would need to achieve growth of $300 to $400 million across Hasbro's brand portfolio to compensate for the traditional level of decline one might expect for movie-backed properties the year after a film. Our brands came very close to achieving this level of growth.

In the games category, our U.S. business softened late in the holiday period, when we rely on consumer take-away to fuel reorders from our retailers. In addition, we had shipped more products earlier in the year to avoid potential container shipment shortages, and with slower consumer take away late in the fourth quarter than anticipated, retailers had sufficient inventory on hand and placed fewer reorders.

On average over a third of the annual games business is typically purchased in the final six weeks of the year. Retailers entered the Christmas holiday season with inventory to support this trend yet consumer demand did not fully develop across our broad games portfolio.

As we re-imagine and re-ignite our games business, it is important to note that more people are enjoying Hasbro's games than ever before, just in new and different ways. In fact, in 2010, our brands experienced a greater than 50% increase in mobile downloads. The growth is indicative of the resonance and ubiquity of our brands which consumers will pay to experience across casual gaming platforms. Through our relationships with Electronic Arts, Activision and others we are growing our gaming audience and creating immersive experiences for consumers across several platforms.

Our team at Wizards of the Coast is already successfully bringing the digital and analog worlds together, enabling consumers to enjoy MAGIC: THE GATHERING across multiple platforms. The combination of the traditional MAGIC: THE GATHERING trading card game with MAGIC: THE GATHERING ONLINE and DUELS OF THE PLANESWALKER on XBOX Live Arcade, Playstation 3 and on the PC produced strong growth in MAGIC: THE GATHERING players and a more than 30% increase in the brand's revenues in 2010.

In 2011, we are further leveraging what people enjoy in our games digitally with innovative new gaming experiences. In 2010, we introduced the innovative FLASH technology which drove a very successful year for SCRABBLE and BOGGLE FLASH. In 2011, we are bringing this technology to a re-invention of SIMON with SIMON FLASH. We will also unveil a new branded gaming platform, an interactive and immersive experience that brings your favorite board games to life in unexpected and unique ways. Finally, creative new “off the board” play experiences such as CUPONK and BOP-IT are engaging our games consumers.

2011 will also include a first in the digital arena for Hasbro as we bring to market a TRANSFORMERS MMOG in China.

Our television initiatives took an important step in 2010. On October 10, 2010, Hasbro and Discovery Communications launched The Hub under the leadership of Margaret Loesch and her team. We continue to be encouraged with the initial results we are seeing at The Hub. Of all kid cable networks, The Hub is the leading co-viewed network in Kids age 2-11 and Adults 18-49 - meaning the network boasts the highest percentage of kids and their parents watching together. We are pleased with the ratings progress since the launch and we believe the marketing investments in the network are working. The Hub currently has more than 80 advertisers, up from 50 at the launch, most of which had never advertised on Discovery Kids.

Hasbro Studios is currently producing 335 half hours of programming for season one of The Hub and the international markets. The Studio has entered into programming agreements with Corus in Canada, where its shows are currently airing on YTV, Teletoon and Treehouse; with Mediaset in Italy on their Italia Uno channel; with Turner Broadcasting’s Cartoon Network in the UK, Spain, Sweden, Norway, Denmark and the Middle East; and with Fox LOOK for international game show and unscripted television content. We expect to see Hasbro Studios programming in additional regions throughout the world by Fall 2011. Our team has done a great job bringing Hasbro brands to life for The Hub and for International markets. We are proud of the quality of programming being produced at Hasbro Studios and the integral role it plays in the development of immersive brand experiences globally.

2011 is the first year in a multi-year strategic plan in which we will have significant initiatives across all elements of our brand blueprint – in television, in movies, in digital gaming, in licensing and of course most importantly across our portfolio of toys & games. We have had years with successful initiatives in each of these areas before, but 2011 will allow us to truly activate and execute across our brand blueprint in the most comprehensive manner to date.

Key initiatives in 2011 include:

- TRANSFORMERS, In partnership with global retailers, we have TRANSFORMERS toys and games, licensed consumer products and digital games across all platforms supporting the release of *Transformers: Dark Of The Moon* in theatres July 1;
- Within our strategic license relationships we are committed to being the best, most innovative partner with the best, most innovative brand owners, such as Marvel and Lucasfilm. To that

end, in 2011 a great new partner joins with us as SESAME STREET comes to our preschool line featuring a number of beloved characters, such as Cookie Monster, in addition to tremendous Elmo initiatives you will learn about at Toy Fair. As we go forward, Sesame Street will be a focus for us year round. The brand will also be global as we launch product in more than 25 countries in Fall 2011;

- Also within our strategic relationships, we have a great line of toys and games supporting two new Marvel films: *Thor* in May and *Captain America: The First Avenger* in July;
- In television, we have a full year of The Hub and the initial launch of Hasbro Studios programs outside the U.S.;
- Finally, we have additional initiatives we will preview at Toy Fair, which you will see for the first time later this week.

As we begin 2011, our inventory at retail is of good quality. We expect the first quarter of 2011 to present a difficult comparison to a year ago. We anticipate building momentum during the year on the strength of our initiatives. As a result, we believe we should be able to grow both revenues and earnings per share in 2011 on the strength of our business globally and initiatives in all major product categories.

We have the strength of Hasbro's global team behind us and are honored to be named to *Fortune's* 2011 "100 Best Companies to Work

For" list. We know that the Hasbro team has the drive, passion and commitment to win and our continued investment in growing our talent globally is essential to our long-term success.

We look forward to seeing you on Friday at our Toy Fair investor event where we will further outline our 2011 initiatives.

Now, I would like to turn the call over to Deb.

Deb Thomas, Hasbro CFO

<u>Deb:</u>

Thank you Brian and good morning.

As Brian highlighted, in 2010 we had a number of strong performances despite the difficult comparison with 2009 and a softening of U.S. consumer demand in games late in the fourth quarter. Our revenue was down slightly in the year, but we achieved record net earnings, improved our operating profit margin to its highest level in 25 years and grew earnings per share for the tenth consecutive year. We accomplished this while also expanding the reach of our business by entering new countries, investing in Hasbro Studios and launching The Hub.

Importantly, we continued to generate cash which we deployed back into our business and returned to shareholders.

We talk a lot about the investments we are able to make in our business, because they are so critical to our long-term success. These investments have roots throughout our company:

- In product development to ensure we have the most innovative products for years to come;
- In advertising and marketing to build and support our brands around the world;
- For television programming in support of our global entertainment strategy;
- To establish and expand our business in emerging markets where we are driving growth;
- In our systems and global processes, including improving efficiencies through the upgrade of our SAP system to one global system, which is now deployed in the U.S. and Europe and underway in the rest of our international markets; and
- Perhaps most importantly, in attracting, retaining and developing our people, where our investments will foster the creativity and innovation that will take Hasbro into the future.

For the full year 2010, worldwide net revenues were $4.0 billion compared to $4.07 billion last year, a decline of $66 million. Foreign exchange had a negative $17.7 million impact on net revenues for the year.

Operating profit for the year was $587.9 million. As a percentage of revenue, operating profit margin improved to 14.7% versus 14.5% in 2009.

Looking at our full-year 2010 segment results:

U.S. and Canada segment net revenues were $2.30 billion compared to $2.45 billion last year. The segment experienced growth in the Preschool category offset by declines in the Boys, Girls and the Games & Puzzles categories.

The U.S. and Canada segment reported an operating profit of $349.6 million compared to $380.6 million in 2009. Operating profit margin was 15.2% of revenues versus 15.5% in 2009. The decline in operating profit reflects lower revenue which offsets lower royalty and amortization expense in the year.

Net revenues in the International segment increased 7% to $1.56 billion versus $1.46 billion in 2009. Absent a negative foreign exchange impact of $27.6 million, net revenues grew 9%. The results reflect growth in every major product category and region, including continued growth in our emerging markets.

The International segment reported operating profit of $209.7 million up 29% from $162.2 million last year. As a percent of revenue, operating profit increased to 13.4% versus 11.1% in 2009. Operating profit margin improved in 2010 as we continue to gain efficiencies in our business, including in the emerging markets, in addition to lower royalty and amortization costs in the year.

The Entertainment and Licensing segment net revenues declined to $136.5 million versus $155.0 a year ago. This is primarily due to a decrease in movie-related revenues related to the TRANSFORMERS and G.I. JOE entertainment properties in 2009.

The Entertainment and Licensing segment reported operating profit of $43.2 million compared to $65.6 million last year. These results reflect lower revenues and additional expenses associated with our television initiatives, including $22.1 million of program production amortization costs; these were $5.0 million in the third quarter and $17.1 million in the fourth quarter. The higher amortization in the fourth quarter reflects the mix of programs we have delivered to The Hub, including game shows and entertainment-style programs which have a shorter amortization period than animated programs.

Now let's look at earnings:

- For the full-year 2010, we reported net earnings of $397.8 million or two dollars and seventy four cents per diluted share compared to $374.9 million or two dollars and forty eight cents a year ago. 2010 net earnings include a favorable tax adjustment of $21.2 million recorded in the first quarter 2010, or fifteen cents per diluted share. Excluding this impact, earnings per diluted share were two dollars and fifty nine cents per share. The full year impact of the tax adjustment is a penny higher than reported in the first quarter given the impact of our share repurchases on share count for the full year.

Our television investments remain on track with our long-term plan and had a negative thirty cents per share impact on the full-year 2010 versus a negative twelve cents per share in 2009. Given the launch of The Hub on October 10, 2010, fourteen cents of this year's impact was in the fourth quarter 2010. As we told you previously, going forward, we will continue to highlight our share of The Hub's earnings as well as program production amortization costs; however, now that the launch phase of The Hub is behind us, the rest of our television activities are part of our ongoing operations and will be reported as such. In 2011, we will begin to benefit from the great work our Hasbro Studios team has done securing international distribution for our programs, which are already on television in Canada. In fact, My Little Pony Friendship is Magic premiered on Treehouse in Canada in early January 2011 and is already the number one animated show on the network. We will begin to see our programs in other international markets in the third quarter 2011.

For 2010, average diluted shares outstanding were 145.7 million compared to 152.8 million last year.

Cost of sales for the year was $1.71 billion or 42.8% of revenues, versus $1.68 billion, or 41.2% of revenues in 2009. The increase in cost of sales as a percentage of revenue in the year is primarily the result of the $22.1 million in program production amortization I mentioned previously, along with changes in foreign currency and a change in revenue mix, which includes the decline in Entertainment and Licensing revenue and growth in our core, non-royalty bearing brands. Historically, as we outlined in November at our Investor Day, the combination of cost of sales and royalty costs equate to 49 to 50 percent of revenues. In 2010, these two expense items combined declined from $2.00 billion to $1.96 billion, or 49.0% of revenues versus 49.3% in 2009.

Operating profit increased to 14.7% of net revenues versus 14.5% last year, despite slightly lower revenues. Several years ago we shared with you our strategic plan to drive operating profit improvements in our business by building a cadre of global Hasbro brands across all product categories. We select our brands that have the greatest global potential, brands that can be re-imagined, re-invented and re-ignited and deployed in many markets worldwide. By building larger, more global brands, we are able to capitalize on economies of scale and efficiencies and continue to grow our operating profit margins even when we have a decline in certain traditionally higher margin categories, such as games.

For the full year 2010:

- Royalties declined due to lower entertainment based revenue, including the decline in TRANSFORMERS and G.I. JOE;
- Amortization was down as the intangible assets associated with the Wizards of the Coast and Larami acquisitions have been fully amortized; and
- Advertising and product development increased in dollars and as a percentage of revenues as we continue to support and develop our brands globally.

Moving below the operating profit line:

- Interest expense increased by $20.5 million to $82.1 million, primarily due to the debt offering we completed in March 2010.
- Other income, net, totaled $2.0 million compared to $2.7 million a year ago. Our 50% share of the Hub is included in this line on the P&L. This year, our share of the earnings in The Hub was a loss

of $9.3 million. $8.9 million was recorded in the fourth quarter reflecting the investment in launching the network in that time period. Our 50% share of earnings in 2009 was $3.9 million. Higher interest and investment income helped partially offset the full-year impact of the 2010 Hub loss.

As we stated earlier, the fourth quarter bore the greatest expense for the network reflecting the timing of expenses supporting the network's launch on 10-10-10. As Brian indicated, The Hub's marketing investments are producing good results and we anticipate the network will continue to invest in marketing and promotional activities to increase awareness for The Hub in 2011.

- For the full-year 2010, our underlying tax rate was 25.4% compared to 29.0% in 2009. This rate reflects the mix of our business – most notably the decline in profitability in the U.S. and increase in profits in international markets.

Now let's turn to the balance sheet:

At year end, cash totaled $727.8 million compared to $636.0 million a year ago. Over the past twelve months we generated $368 million in cash from operations. Our cash generation remains healthy and we continue investing in our business. This includes approximately $52 million in television programming costs to date. Additionally, during the fourth quarter, we paid a $25 million royalty payment to The Hub. We have three remaining $25 million payments due in the fourth quarters of 2011, 2012 and 2013.

In December, we entered into a new $500 million credit facility which extends through December 2014. Additionally, we recently established a commercial paper program to allow us to issue commercial paper as a source of short-term liquidity if needed. The new bank facility, which will support the commercial paper program, replaces our securitization program which we did not renew and have not used since the second quarter 2009. Given our triple B, B double A credit rating, the use of a commercial paper program provides a cost effective alternative to other financing options.

As you'll recall, in March 2010, we raised $500 million through a debt offering. On March 29 we called our outstanding two and three quarter percent convertible debt. Prior to the end of the call period, substantially all the debentures were converted into 11.6 million shares.

For the full year 2010, we repurchased a total of 15.8 million shares of common stock at a total cost of $636.7 million and an average price of $40.37 per share. At year end, $150.1 million remained available in the current share repurchase authorization.

Last week, our Board voted to increase our dividend 20% to $0.30 per share from the previous quarterly dividend of $0.25 per share. As you can see, we remain firmly committed to returning cash to shareholders. Over the past five years, our quarterly dividend has more than tripled from nine cents per share in 2005 to thirty cents per share today. We also have been actively repurchasing shares, buying back 76.6 million shares from 2005 to year end 2010 at a total cost of $2.2 billion.

The quality of our receivables portfolio remains good and receivables at year end were $961.3 million compared to $1.0 billion last year. As I previously mentioned, we have not utilized our securitization facility since the second quarter of 2009.

DSO's were 68 days, flat with last year.

Inventories at $364.2 million at year end compared to $207.9 million a year ago, which were exceptionally low. While higher than a year ago, the quality of our inventory is good.

In 2010, Hasbro continued to execute our long-term strategy toward becoming a branded play company. We made important investments and delivered successful initiatives across geographies and categories during the year. For 2011, we have compelling offerings across our global business in addition to strong entertainment. We continue to believe we should be able to grow both revenues and earnings per share in 2011.

We look forward to seeing many of you on Friday, February 11, as we host our annual investor meeting at Toy Fair. It is a great opportunity to not only hear from us as we speak further about our business and our vision for the future, but to also see our 2011 line first hand including several exciting new offerings we will be unveiling for the first time.