Hasbro First Quarter 2011
Financial Results Conference Call Management Remarks
April 14, 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 first quarter 2011 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.

Please note that beginning in the first quarter 2011, Hasbro has reclassified certain of its products from the Boys category to the Preschool category. A table restating net revenues by category for 2010 and 2009 to reflect the 2011 category classification is included in today's press release.

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.

In February, we indicated that Q1 would be challenging given the higher retail inventories entering the year as well as the timing of several of our new initiatives. Having said this, we are pleased with our first quarter performance, which is on track with our plan for the full year.

The International segment posted another quarter of strong growth, increasing 15% year-over-year, with positive gains in every major geographic region. This growth helped offset the decline in the U.S. and Canada segment, which was down, as expected, in the quarter.

Our global portfolio approach continued to deliver growth in brands across categories. During the first quarter a number of brands grew including TRANSFORMERS, BEYBLADE and SUPER SOAKER. Additionally, FURREAL FRIENDS in the Girls category and MAGIC: THE GATHERING in the Games and Puzzles category continued their recent trend of strong year-over-year gains.

During the first quarter, we shipped a limited amount of product associated with *Transformers: Dark of the Moon,* the third installment of the Transformers movie franchise, which is being released in theaters on July 1. These shipments will increase significantly in the second quarter as product is scheduled to be on shelf the week of May 16, ahead of the movie release date.

Also in the first quarter, we shipped product in support of Marvel's release of *Thor*, due in theatres May 6, and so far it is selling well. In recent weeks, we began shipments of product for *Captain America: The First Avenger* due in theatres July 22.

BEYBLADE continues to be in short supply around the world. We are increasing production but demand is so strong we likely will not fully catch up until during the third quarter.

First quarter spending reflects our continued investment in our business for the longer term. Increases in product development in the quarter reflect developing innovative product lines for this year and beyond. In addition, Q1 reflects both being fully staffed at Hasbro Studios and increased spending levels for our overall television initiatives versus a year ago, including program amortization costs and support for Hubworld.com. Overall, we remain on track for our long-term plan in respect to television.

Shows based on Hasbro's brands and produced by Hasbro Studios have led The Hub's ratings, with 7 of the top 10 rated shows being Hasbro Studios productions.

The Hub just completed its upfront presentations to advertisers who are enthusiastic about the great lineup of new and returning shows for Season Two. From Hasbro Studios, there are six new original shows based on a number of our brands. Those series are joining five shows from Hasbro Studios that are returning with all new episodes for Season Two. The network continues to add advertisers and currently has more than 100 advertisers –the vast majority of which did not advertise on Discovery Kids.

Canada is the first market outside the U.S. in which our programs are airing. In the second half of the year, we will see broader distribution of our shows on some of the top rated kids' networks in major markets around the world including the UK, Germany, Spain and Italy. We anticipate our shows being on air in as many as 20 countries this year, throughout Europe, Asia and Latin America.

Looking ahead in 2011, in addition to a robust entertainment lineup, we have a number of very exciting new product launches scheduled.

These include:

- KRE-O, our new construction brand built around TRANSFORMERS for 2011. Initial shipments will begin shortly, to be in stores in the U.S and Canada in July;
- Also in the coming months we will see the launch of Sesame Street products, including Let's Rock Elmo, in our Preschool

line. These products will begin shipping later this quarter, with the first products in U.S. stores in August;

- Within the Games category, the new interactive gaming platform – LIVE – for both MONOPOLY and BATTLESHIP is scheduled to be on shelf in the fourth quarter and delivers an entirely new interactive experience for game players.

Many of you viewed these products at Toy Fair in February. We were extremely pleased with the reaction to our line for this year, by retailers, the media and you, our shareholders. We are partnering with our retailers globally in support of our entertainment initiatives, as well as the continued growth of our core brands.

Overall, we remain very optimistic about 2011 which is the first year in which we are fully activating our brand blueprint across all its elements. We will see momentum starting to build in the second quarter as we support several major motion pictures coming into theatres in May and in July. We will continue to fuel this momentum with many new innovative product initiatives across virtually all of our business. Our international business is expanding and supported with several new offices and investments in building our emerging markets presence.

The stage has been set for a strong year, and we continue to believe that we will grow revenues and earnings per share for the full-year 2011.

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

Deb Thomas, Hasbro CFO

Thank you Brian, and good morning.

As Brian stated, the first quarter was consistent with our plan for the year. We delivered revenues just below last year while we continued investment spending in select strategic areas to support the future growth of our business.

For the first quarter, worldwide net revenues were $672.0 million versus $672.4 million last year. Foreign exchange had a positive $4.8 million impact on net revenues for the quarter.

Operating profit for the quarter was $48.9 million versus $69.3 million in 2010.

Looking at our segment results for the first quarter 2011:

The U.S. and Canada segment net revenues were $391.2 million, versus $424.7 million last year. We had anticipated declines in the segment for the first quarter, given the higher retail inventory at the beginning of the year. Within the segment, the Boys product category grew in the quarter, but was offset by declines in the Games & Puzzles, Girls and Preschool categories.

The U.S. and Canada segment reported an operating profit of $41.0 million or 10.5% of revenues. This compared to $61.1 million or 14.4% of revenues in 2010. The decline in operating profit reflects higher product development and SD&A costs as we fund our business for future growth and new initiatives both this year and in coming years; as well as an increase in royalties from the mix of revenues to more royalty-bearing products in the Boys category, including BEYBLADE.

Net revenues in the International segment increased 15% to $254.3 million versus $221.7 million in 2010. Absent a positive foreign exchange impact of $3.1 million, net revenues in the International segment grew 13%. The results in this segment reflect growth in all major geographic regions as well as growth in the Boys product category. Declines in the Games & Puzzles, Girls and Preschool product categories partially offset this growth.

The International segment reported an operating loss of $1.7 million compared to an operating loss of $2.4 million last year. This segment’s results reflect our continued investment in emerging markets.

The Entertainment and Licensing segment net revenues declined 2 percent to $24.6 million compared to $25.1 million in 2010. These results reflect declines in licensing revenue primarily associated with the timing of revenues from the 2009 movie, *Transformers: Revenge of the Fallen*, mostly offset by growth in licensing revenues from other brands as well as movie and television related revenues.

The Entertainment and Licensing segment reported an operating profit of $5.4 million compared to $9.4 million last year. These results reflect lower lifestyle licensing revenue, our fully-staffed television initiatives, $3.1 million of program production amortization costs in the first quarter 2011 as well as support for our on-line initiatives.

Now let’s look at earnings:

• For the first quarter 2011, we reported net earnings of $17.2 million or twelve cents per diluted share compared to $58.9 million or forty cents per diluted share a year ago. Net earnings for the first quarter 2010 included a favorable tax adjustment of $21.2 million or fourteen cents per share. Excluding this favorable adjustment, net earnings for the quarter were $37.7 million or twenty-six cents per share.

For the quarter, average diluted shares outstanding were 141.0 million compared to 151.3 million last year.

Cost of sales in the quarter was $267.2 million or 39.8% of revenues, versus $262.7 million or 39.1% of revenues in 2010. The year-over-year increase is primarily due to a slightly higher cost due to the mix of product sales during the quarter and unfavorable manufacturing variances from a slowing of games production in the U.S. as we work through existing inventory.

Operating profit margin decreased to 7.3% versus 10.3% last year. Spending in the first quarter includes higher product development costs to support the increased number of initiatives Hasbro has planned for later this year and for the next several years; continued investments in the emerging markets; and our now fully-staffed team supporting our television initiatives. The impact on earnings from these continuing investments is more apparent in Q1 given our first quarter revenues are generally the lowest of the year.

Advertising declined in dollars and as a percentage of revenue. As we indicated in February, in years with a high number of entertainment initiatives we expect advertising as a percentage of revenues to be in the lower end of our typical range.

On a year-over-year basis, SD&A costs increased in part due to support of our television and emerging market initiatives, as well as our SAP and European shared services implementation. These investments both drive future revenue growth as well as future increased organizational efficiencies. We continue to expect SD&A to be below 20% of net revenues for the full year.

Moving below the operating profit line:

- Interest expense increased by $4.6 million to $21.4 million, primarily due to the debt offering we completed in March 2010.
- Other expense, net, totaled $4.7 million compared to other income, net, of $1.7 million a year ago.

  As you may recall, our 50% share of The Hub is included in this line on the P&L. For the first quarter, our share of the earnings in The Hub was a loss of $2.0 million compared to income of $500,000 in 2010. This year's results reflect continued marketing to drive awareness of The HUB and increased costs in support of the newly re-launched network.

Additionally, we experienced higher foreign currency losses in 2011 compared to 2010.

- For the first quarter 2011, our underlying tax rate was 28.0% compared to an underlying tax rate, excluding the favorable tax adjustment, of 29.0% in 2010.

Now let's turn to the balance sheet:

At quarter end, cash totaled $927.4 million compared to $1.3 billion a year ago, and is up from $727.8 million at year end. Operating cash flow in the quarter was $276.5 million. This includes $17 million in television programming costs for the quarter and $64 million over the past twelve months.

In December 2010, we entered into a new $500 million credit facility which extends through December 2014 and in January of this year we established a commercial paper program to allow us to issue commercial paper as a source of short-term liquidity as needed.

In March 2010, we called our outstanding convertible debt. This was reflected as the current portion of long-term debt in the first quarter 2010 balance sheet.

During the first quarter 2011, we repurchased a total of 1.4 million shares of common stock at a total cost of $63.7 million and an average price of $45.48 per share. At quarter end, $86.4 million remained available under the current share repurchase authorization.

During the first quarter, our Board of Directors increased our quarterly cash dividend 20% to thirty cents per share from the previous quarterly dividend of twenty five cents per share. This increase will be effective for the second quarter payment in 2011.

The quality of our receivables portfolio remains good and receivables at quarter end were $559.0 million compared to $526.0 million last year and down from $961.3 million at year end.

DSO's were 75 days, up 4 and a half days versus last year. The increase is primarily due to growth in international emerging markets which have longer payment terms.

Inventories at $401.3 million compared to $226.8 million a year ago, which was exceptionally low, and $364.2 million at year end. Since year end, we have worked to lower our carry-forward inventory. Retail inventories are down year-over-year, and we had a number of programs to help sell this through. At the same time, we are adding inventory in anticipation for the year’s many new initiatives. Additionally, due to the changing nature of manufacturing in China, our partners are building more product year round to level-load their factories and, as we discussed with you last year, this is resulting in additional inventory on our books.

Depreciation and capital expenditures in the quarter were $20.3 million and $22.4 million, respectively.

Overall, our first quarter results are consistent with our expectations. Hasbro’s financial position is strong, our investments are fueling our growth and we remain excited about our new initiatives launching in the coming months.

Brian, David and I are now happy to take your questions.