# Second Quarter 2023
# Financial Results Conference Call Management Remarks
# August 3, 2023

**Kristen Levy, Senior Manager, Investor Relations**

Thank you and good morning, everyone.

Joining me today are Chris Cocks, Hasbro's chief executive officer, and Gina Goetter, Hasbro's chief financial officer. Today, we will begin with Chris and Gina 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 eOne Film and TV business, notwithstanding, the agreement we just entered into with Lionsgate to sell this business. That transaction is subject to customary closing conditions and regulatory approvals. Following closing of the transaction, we plan to 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**

Good morning.

Today I am pleased to announce that Hasbro has entered into a definitive agreement to sell our eOne Film and TV business to Lionsgate for approximately $500 million, consisting of cash of $375 million and the assumption of production financing loans. This purchase will include a team of talented employees, a content library of nearly 6,500 titles, active productions for non-Hasbro owned IP like *The Rookie, Yellowjackets* and *Naked and Afraid* franchises, eOne's Canadian Film & TV operations, and the eOne unscripted business which will include rights for producing Hasbro-based shows like *Play-Doh Squished*. We expect the transaction to complete by the end of 2023. Hasbro will use the proceeds to retire a minimum of $400 million of floating rate debt by the end of the year, and for other general corporate purposes.

Hasbro Entertainment will be the new marquis for our ongoing entertainment efforts after the sale closes, under the leadership of Olivier Dumont, the current head of eOne Family Brands. Hasbro Entertainment's mission is to develop, finance and produce entertainment based on the rich vault of Hasbro-owned brands. We will bring to life new original ideas designed to fuel all areas of Hasbro's blueprint including toys, publishing, gaming, licensed consumer products, and location-based entertainment. We will retain a focused team of creative development and business affairs experts to shepherd the 30+ Hasbro-based projects in development working with the best studios and distribution platforms in Hollywood including ongoing development of the TRANSFORMERS and GI JOE franchises, PLAY-DOH, D&D, MAGIC: THE GATHERING and our board game portfolio. As part of the sale, we expect to move to an asset-lite model for future live action entertainment, relying on licensing and partnerships with select co-productions like our previously announced *Transformers One* animated film and the D&D live action television series, both with our partners at Paramount.

The sale of eOne is another important milestone in our transformation at Hasbro. Last year, we articulated a plan to turn around Hasbro, driving growth in fewer, bigger, more profitable brands; improving our consumer focus, execution and innovation; and building our operational excellence to fuel our bottom line and create sustainable performance. At the highest level, it is a plan about recentering Hasbro on what has helped us create one of the most valuable portfolio of brands in Toys & Games: the timeless power of play.

I'm pleased to report in Q2 we made substantial progress against these goals.

Hasbro delivered better than planned operating results for the second quarter including revenue of $1.2 billion and adjusted operating profit of $137 million which includes a $25 million charge we took for the *D&D: Honor Among Thieves* feature film. The movie is among the best reviewed films of 2023 and has performed well in streaming, but the box office didn't meet expectations.

POS in the quarter was at or ahead of market, and when factoring exited businesses was ahead of market.

Through the first half, PEPPA PIG, TRANSFORMERS, PLAY-DOH, D&D, MAGIC: THE GATHERING and Hasbro Games have all grown point of sale. According to Circana, the G9 global toy and game market declined 7% through YTD June. We gained share among the G9 in three of our five focus categories, Actions Figures behind growth in TRANSFORMERS; Arts & Crafts with PLAY-DOH; and in Games, behind MONOPOLY. Our direct fan-focused business, Hasbro Pulse, increased point of sale by 54% in the quarter.

*Transformers: Rise of the Beasts* is one of the top box office performers of the year and has driven an 83% improvement in TRANSFORMERS POS since its release. MAGIC: THE GATHERING launched what we believe will be the biggest release in our history with *Lord of the Rings: Tales of Middle-earth*. D&D generated nearly 2 million new registered users on D&D Beyond through the first half of the year. Our licensing business continues to grow including the release of one of the biggest mobile games in the last 5 years, *Monopoly Go,* from our partners at Scopely, which since its debut has been #1 in downloads in 87 countries on the Apple App Store and 49 countries on Google Play.

Our operational excellence efforts have driven over $84 million of cost savings year-to-date, money we are using to both fund inventory reduction and clearance efforts and key growth initiatives like direct, data analytics and digital. And speaking of inventory, our sales teams have been busy reducing our owned and operated inventory in our Toys & Games segment by 24% year-over-year and our retailer inventory by 16%.

While headwinds and uncertainty continue to exist in the toy and game category as a whole, a better than planned start to the year so far for Hasbro sets us up for success in the back half. Gina will share more in her remarks but at a high level we are maintaining our guidance for our Consumer Products segment and raising guidance for our Wizards of the Coast and Digital Games segment. Due to the writers' and actors' strikes and underperformance of *D&D: Honor Among Thieves*, we are lowering our guidance for Entertainment.

MAGIC is on track for a record Q3 with favorable set release timing buoying results. D&D should have a strong second half powered by excitement for the upcoming PC and console release of *Baldur's Gate III* from our partners at Larian. FURBY is already a hot seller with initial allocations selling out in under 72 hours. Most of our Toy & Game innovations have only just begun to hit shelves including the new preschool line for *Lucasfilm's Star Wars: Young Jedi Adventures*, our new AR game, TWISTER AIR, new blaster innovation with NERF DOUBLE PUNCH and hot new game crossovers like Barbie MONOPOLY. And with much improved inventory levels and the bulk of our inventory management efforts phasing down in Q3, we see an opportunity for meaningful margin improvement as the year progresses, particularly as we go into the fourth quarter.

Net, we exit our first half with a solid quarter and positive operating indicators for our second half in our core segments. Our inventories are greatly improved, we are growing share in key brands,

and we are making the improvements necessary to our supply chain and cost structure to see sustained operating margin growth over the mid and long term. We also are making the necessary choices to right size our entertainment footprint.

Strong brands with quality innovation and execution will be more important than ever in a more unpredictable environment. That's one of the reasons I'm excited by the potential of our new leadership team, who are already bringing a more disciplined approach to our operations and a palpable step up in product innovation. We continue to move up and to the right on our change curve - evolving our cost savings initiatives to a continuous, and relentless, improvement model. Our supply chain is becoming a competitive advantage, with costs back down to near pre-pandemic levels and positioned favorably vs. competition. We are seeing momentum with key retailers. Our digital portfolio is tighter and making rapid strides. And we are reinventing our approach to data analytics, product development and long-term innovation. Paired with our approach to focused entertainment through partners that both inspires and connects to a tight business plan and economic engine, we are positioned well for the medium to long term.

I'd now like to turn over the call to Gina Goetter, our Chief Financial Officer.

**Gina Goetter, Hasbro CFO**

Thanks Chris and good morning, everyone.  As Chris laid out, we delivered a solid quarter with revenue coming in ahead of expectations and proof points emerging across several of our transformation initiatives.  We also announced the sale of the eOne Film & TV business, a step that simplifies our strategy and our focus on Toys and Games.

As we look to the quarter, total Hasbro revenue of $1.2 billion dollars was down 10% versus last year as we continued to see normalization of inventory, lapped the exit of certain licenses and markets within the Consumer Products Segment and we had fewer planned releases for Wizards of the Coast. The Entertainment Segment revenue was down 3% primarily due to the exit of non-core businesses in 2022; excluding these divestitures the Film & TV and Family Brands businesses were up 5% versus prior year.

Adjusted Operating profit of $137 million was down 43% versus last year.  In addition to the revenue decline, we incurred higher inventory close-out costs as we continue to right size inventory back to healthier levels.  Profit was also negatively impacted by an impairment taken on *Dungeons & Dragons: Honor Among Thieves* as a result of box office results coming in below expectations.

Adjusted earnings per share of $0.49 was 57% below last year due to the factors noted and includes unfavorable impacts related to taxes and interest expense.

The adjusted results exclude the impact of a $296 million dollar Film & TV impairment. Through the second quarter, the ongoing writers' and actors' strikes have had minimal impact on our results; however, as the strikes continue our 2023 outlook for entertainment has come down. The

adjusted results also exclude incremental costs attributed to the Operational Excellence program and amortization associated with the eOne acquisition.

Looking at year-to-date results, revenue of $2.2 billion dollars was down 12% below last year driven by declines in the Consumer Products segment and planned timing shifts across entertainment. Wizards segment revenue is down slightly versus prior year as a result of launch timing and having one fewer release in the front half of this year compared to 2022.

Adjusted Operating Profit of $184 million was down 52% versus last year as we continue to incur higher costs associated with clearing inventory, as well as absorb the impact from the D&D film impairment.

Year-to-date adjusted EPS is $0.49 driven by the factors noted above.

Looking at our brand performance, our Franchise Brands were down 5% in the quarter and year-to-date. These brands represent our biggest and most profitable brands and are just over 60% of our revenue.

Within Franchise Brands we delivered significant Q2 revenue growth in TRANSFORMERS and DUNGEONS & DRAGONS driven by the uplift from the movie releases. Additionally, PEPPA PIG grew as a result of growth in entertainment and digital gaming.

Our Partner Brand revenue is down 21 percent for the quarter. More than 60 percent of the loss is a result of the licenses we exited at the end of last year. Sales of Hasbro products for Spider-Man by Marvel are up with an over 100% increase in POS since the release of *Spiderman: Across the Spider-Verse* and further supported by the preschool series and new product releases. Partner Brands continue to play a vital role in our portfolio for kids, fans and retailers around the world.

Across our Portfolio Brands, the declines are driven by the reprioritization of investment to support the franchise brands, as well as discontinuances across the retail footprint. However, one of our re-launched portfolio brands, FURBY, is off to a promising start.

Looking at operating margin, second quarter adjusted operating margin of 11.3% was 670 basis points below last year.

The single biggest impact in the quarter is the volume decline and mix of business. Through the first half of the year, we prioritized cleaning up the portfolio and reducing inventory levels across the CP business, resulting in higher-than-normal close-out costs. Also, as planned, we had one less MAGIC release within the Wizards Segment, which created an unfavorable mix and fixed cost absorption impact. Additionally, as we shifted to leverage licensed IP within Wizards, we incurred higher royalty expense resulting in a 1.7 margin point loss.

Momentum is accelerating on our cost savings program and year-to-date we have accumulated $32 million of gross cost savings within Supply Chain and an additional $52 million of gross savings within operating expense. The combined $84 million of gross cost savings are more than offsetting cost inflation and have allowed us to reinvest back into the business to support higher levels of marketing spend, fund our inventory reduction efforts and fuel key strategic initiatives required to deliver our long-term targets. Cumulatively, since we began the savings program in 2022, we have reduced our cost base and delivered gross savings of $104 million, and we remain on track to deliver our in-year savings goal of $150 million.

And finally, to round out the margin drivers, we had a negative 280 basis point impact in other items, which includes the $25 million impairment on the D&D film.

As Chris mentioned, we made significant progress in lowering inventory levels. We reduced total owned inventory 16% versus prior year primarily driven by a 24% reduction in the Consumer Products segment inventory. We expect to see inventory reductions through the first part of Q3 and stabilizing to more normalized levels by the end of the year. From a retail inventory perspective, their inventory was also down 16 percent and the lion's share of the reductions are behind us.

Looking more closely at Segment performance within the quarter, Wizards of the Coast and Digital Gaming segment revenue was down 11 percent. Overall tabletop gaming revenue, which includes both MAGIC and D&D, declined 17% given release timing. The decline in tabletop was partially offset by 33% growth in Digital Gaming including the addition of D&D Beyond, which we acquired last May, and growth in *Arena*. Segment margins declined in line with expectations driven by higher royalty expense and a step up in investment to support future brand growth and product development.

Moving to the Consumer Products segment, total CP revenue was down 11% in the quarter driven by declines in POS trends and the focus on clearing inventory.

Looking at the key drivers for the quarter, 5 points of the decline was driven by planned license exists. Another 3 points of decline was driven by Toy and Game volume given the broad category trends and retailers taking a more focused approach with their inventories. 4 points of decline came from pricing & mix driven by additional close-out costs as we worked through higher inventory levels. And finally, we achieved 1 point of growth from Licensed Consumer products as we re-energize focus on leveraging our IP across categories.

In the quarter, the entertainment segment declined 3% primarily due to business exits late last year. This was partially offset by 3% growth in Film and TV behind scripted TV growth as well as film revenue from *Dungeons & Dragons: Honor Among Thieves*. In addition, Family Brands revenue increased 14% driven by content sales, including for PEPPA PIG.

The adjusted operating loss for the second quarter includes the $25.0 million *Dungeons & Dragons: Honor Among Thieves* production asset impairment charge.

Today we announced the sale of our eOne Film and TV business to Lionsgate. Overall, the business that we're selling represented approximately 85% of the revenue and just over 60% of the adjusted operating profit of the total Entertainment Segment last year.

Wrapping up with Hasbro, Inc., we delivered $119 million dollars of operating cash year-to-date, which is $29 million behind last year driven by lower receivables coming out of 2022.

Through June we repaid $91 million of long-term debt and spent $112 million on capital expenditures led by investments in Wizards of the Coast for future digital gaming releases. And we've returned $194 million of capital to our shareholders via dividends.

In the quarter we booked a 26.3% underlying tax rate, which compares to 21.6% in Q2 last year. The higher rate is driven by our entertainment business losses and higher withholding taxes plus a shift in the geographical mix of income.

Additionally, we had $4.8 million of additional interest expense due to higher interest rates.

Turning to our 2023 guidance, the outlook across the Consumer Products Segment remains on track and Wizards of the Coast Segment is better than original expectations. For the Entertainment Segment we are updating guidance to reflect the reality of the writers' and actors' strikes on our eOne Film & TV business. This updated guidance assumes Film & TV is included for the entire fiscal year and we will update once the close is complete. Based on this we now expect:

- **Total Hasbro Inc revenue down 3 to 6%.** As we look at the three primary Segments this guidance continues to assume that the CP business will be down mid-single digits, which is consistent with our initial outlook. We are planning for POS trends to continue stabilizing in the back half of the year and this, coupled with stronger execution, will result in modest back-half revenue growth. We now expect that Wizards of the Coast will deliver high-single digit revenue growth compared to our original guidance of mid-single digits. We are confident in the back-half releases slated for MAGIC. Digital licensing should also be supported by the continued success of *Monopoly Go* and the upcoming release of the Triple A role playing game, *Baldur's Gate III*. And finally, for Entertainment we are now expecting revenue declines of 25% to 30% which incorporates the impact of the writers' and actors' strikes on production deliveries in the back half of the year.

- **Adjusted Operating Margin is now expected to be up 20 to 50 basis points versus last year's adjusted operating margin.** The margin outlook for CP and Wizards of the Coast are the same or better than our previous guidance. The guidance reflects unfavorable changes in entertainment given the strikes, as well as the D&D impairment. This margin guidance continues to expect $150 million of in-year cost savings driven by our operational excellence program, as well as assumes that the cost to clear inventory reduces in the back half of the year.

- Despite the headwind from the Entertainment segment, **we continue to expect 2023 adjusted EBITDA to be relatively flat to prior year.** And based on our current forecast, we continue to **expect to generate $600 – $700 million of operating cash flow**.

- From a capital allocation standpoint, our priorities are to invest behind the business, pay down debt and return excess cash to shareholders via dividends. We expect to use the cash generated from the sale of eOne Film & TV to pay down debt, which will accelerate the reduction of our overall debt by a minimum of $400 million and advance our progress toward achieving our 2.5X long-term leverage target.

- In terms of earnings per share, despite adjusted EBITDA guidance remaining unchanged, the Film & TV business has created additional volatility impacting below-the-line items including interest expense and tax rate. Through the second quarter Film & TV has created an approximate $0.50 negative impact on earnings per share and based on our updated outlook we anticipate an additional $0.10 to $0.20 negative impact on the full year. Given this, as well as the divestiture, we are withdrawing total Hasbro, Inc. earnings per share guidance for the year and will revisit reintroducing the metric once we have closed the transaction. Our remaining Segments are continuing to grow their EPS contribution versus original expectations and versus last year behind strong Wizards growth and cost savings momentum.

I am three months in at Hasbro and every day I am more excited about the opportunities ahead for this amazing company. We have a lot of work ahead of us to deliver the year, but we are making progress and gaining momentum, with today's announcement of the sale of eOne Film & TV being the latest milestone. And with that, I'll turn it back over to Chris to wrap up.

**Chris Cocks, Hasbro CEO**

While our overall guidance is down for the year, the puts and takes are contained in a segment that we have found a better home for and a company adept at driving value. Our core business is making tangible progress and while the next six months will present entertainment-related headwinds we will emerge a more focused, more profitable and more predictable business. This will enable us to continue to fund our category-leading dividend, improve our balance sheet health and drive value for our shareholders, partners and fans of all ages.

We'll now pause to take questions.