First Quarter 2024
Financial Results Conference Call Management Remarks
April 24, 2024

Kern Kapoor, Senior Vice President, 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.

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.

Chris Cocks, Hasbro CEO

Thanks Kern, and good morning.

For the past several quarters, you've heard us reaffirm Hasbro's strategy to Refocus on Play with our Fewer, Bigger, Better principles. In our Q1 results, we are seeing Hasbro's strategy come to life. We are applying a franchise-first mindset. We are realizing our brand's potential through licensing, with success across Digital and Consumer Products. And we're continuing to invest in innovation across toys and games, appealing to consumers of all ages across play patterns.

We began 2024 with a healthier balance sheet, a leaner cost structure and an improved inventory position. In Q1 we saw tangible progress on our turnaround. Our revenue landed as expected and our margins outperformed. While most of the year remains ahead of us, I'm glad to see the business is on a solid track. It gives me confidence Hasbro is pointed toward sustainable long-term growth backed by industry leading innovation across games, toys, and partner-led entertainment and licensing.

Digging into the quarter there were several highlights. Let's start with licensing. *Monopoly Go!* from our partners at Scopely has crossed over $2B in lifetime revenue and 150 million downloads, breaking records as the fastest growing mobile game ever. *Baldur's Gate 3* from our partners at Larian Studios continued its momentum from last year with even more recognition – it's now the only game to ever win all 5 prestigious Game of the Year awards.

While the success of *Baldur's Gate 3* is in a league of its own, we see a long-term opportunity to leverage the richness of D&D across more games – in Q1 we signed new licensing agreements with Resolution Games, best known for the VR game *Demeo*, as well as Gameloft, makers of Disney *Dreamlight Valley*, both to build within the D&D universe.

And to celebrate D&D's 50th anniversary we executed new partnerships with Lego, Converse, and Blackmilk apparel. DUNGEONS & DRAGONS Red Dragon's Tale is a 3,700 piece fan favorite that combines the building fun of Lego and the rich world building of D&D. I can't wait to build my own.

Our success in licensing extends to our Toy Brands. We saw positive early results in Q1 from LITTLEST PET SHOP, now manufactured and distributed by Basic Fun! And just this week we announced a strategic relationship with Playmates to produce and distribute POWER RANGERS toys starting in 2025. These are high profit partnerships that leverage great partners with iconic brands from our extensive IP vault.

Our new asset lite entertainment model is already paying dividends. We look forward to bringing the star-studded animated film *Transformers One* to theaters this September with our partners at Paramount. In Q1, we announced deals with Lionsgate and Margot Robbie's production company, LuckyChap, to produce a live-action MONOPOLY movie, as well as with the CW to create game shows around TRIVIAL PURSUIT and SCRABBLE. And, of course, I can't wait to see what Sony has in store for us with the just announced film and TV projects for CLUE. The movie was a favorite of mine from the 1980's.

And our success in asset-lite, partner-based entertainment extends well beyond the screen. We now have 115 Hasbro branded, partner-led properties bringing in over 55 million visitors last year alone. We see those figures increasing significantly over the next couple of years as our partners bring our brands to life through thrilling experiences and attractions and billions of dollars of third-party capital investment with quality executions like Hasbro City in Mexico, which was just awarded the best family entertainment center in the world by the International Association of Amusement Parks and Attractions.

Reinvigorating our innovation and driving operational rigor underpins our turnaround. In Games we continue to make changes within our Board Games portfolio, opening the door for share gains in growth categories like party, strategy and card games.

In Q1, we launched LIFE IN RETERRA, a tile-laying strategy game from acclaimed designer Eric Lang and FORK MILK KIDNAP, a fun new adult party game. We also are doubling down on where we are the clear leader. In February we launched the 2nd Edition of MONOPOLY Prizm NBA Board Game at the NBA All-Star Weekend, and it helped make MONOPOLY the #2 growth property in the games category in the US for the quarter. We expect to see more crossover opportunities for the brand and sports in the future.

MAGIC: THE GATHERING saw healthy growth in Q1 driven by timing of sales for our latest release Outlaws of Thunder Junction and strong demand for *Fallout* Commander. Q2 is an important quarter for MAGIC with the releases of both Outlaws and Modern Horizons 3, what we expect to be our biggest set of the year. While we expect Magic to be down for the year after a record 2023, we maintain our long-term bullishness on the brand based on continued robust fan engagement and a killer line up of new *Universes Beyond* collaborations including upcoming sets in 2025 for Final Fantasy and Marvel.

And stay tuned for more exciting innovation from our D&D team later this year as we continue to scale D&D Beyond and expand the richness of tabletop game play to digital. We expect to connect to an even wider audience while delighting our existing fans as D&D celebrates its 50th anniversary.

Finally, let's turn to Toys where our turnaround efforts are well underway. We began Q1 with inventories at multi-year lows, down over 50% from the prior year. As a result of our clean-up efforts, we saw a significant reduction in closeout volume in Q1. Thanks to our operational discipline and careful SKU management, we're in a good position with our large retail partners as we work towards new product innovation including Beyblade, NERF and a refreshed line-up for BABY ALIVE. We also are seeing solid progress in revamping our approach to marketing, significantly shifting our mix to digital, driving stronger than ever partnerships with our eCommerce and multi-channel partners like our just completed Birthday Shop execution with Walmart, and are seeing improved return on advertising spend as a result.

We continued to see momentum with FURBY, one of last year's top new toys, including our latest best seller, FURBLETS. According to Circana, these fuzzy little friends were the top selling item in the special feature plush category in the US. And earlier this week we announced glow-in-the-dark FURBY Galaxy, coming this summer.

We've also seen encouraging POS trends for TRANSFORMERS as we celebrate the brand's 40th anniversary. While we are lapping last year's successful film *Transformers Rise of the Beasts* in Q2, we look forward to sales rebounding in the back half as we gear up for *Transformers One*.

Last but not least, our retail and licensing partnerships are among our most important. Last month in New York City, Hasbro and Amazon collaborated with The Walt Disney Company to create a Star Wars experience at their first-ever March to May the 4th event. Through an immersive retail experience in the main floor of the Empire State Building, fans were able to take photos with costumed characters including Darth Vader and check out Hasbro's latest Black Series helmets and Kyber Core Lightsabers collectibles.

Before I wrap up, I want to highlight the recent changes to our Board of Directors, bringing in new members with extensive games and retail operations experience. I'd like to welcome Darin, Frank and Owen to the Board. I also want to thank Tracy, Linda, and Michael who will be retiring from the Board following our shareholder meeting next month. I'm grateful for their support and guidance over the past few years.

And lastly, I want to honor Alan Hassenfeld who will be stepping away from his role as Emeritus Chairman. Alan has been and always will be a prominent architect of Hasbro's legacy, and he will continue to be engaged with Hasbro in guiding the company's philanthropic efforts, providing development and relief for children around the world.

To recap, it was a good quarter, we landed revenue where we expected with wins across digital licensing, board games, and continued momentum for FURBY. We continue to sharpen our execution, staying within our guardrails on inventory and delivering meaningful cost productivity across the P&L. While it's still early, our turnaround efforts in consumer products are going well and we look forward to monitoring our progress over the next couple of quarters.

I'd like to now turn over the call to Gina to share more about our detailed results and guidance for the year. Gina?

Gina Goetter, Hasbro CFO

Thanks, Chris, and good morning, everyone.

In February I outlined our strategy to build on the foundation we put in place last year after resetting the business, and the necessary steps we're taking to reinvigorate innovation across the portfolio while continuing to drive operational rigor.

I am pleased with how we executed in the first quarter, with our strength in digital licensing and MAGIC contributing to a more profitable business mix while our turnaround efforts in toys started to take shape. We continued to deliver supply chain productivity ahead of inflation and we made meaningful progress on reducing operating expense.

We see more room to drive our cost footprint lower as we further refine our supply chain and optimize product design across each brand. We have already identified significant savings through this design-to-value strategy, with our teams leveraging customer insights and competitive analysis to inform our actions.

Looking at our toy turnaround in more detail, while Q1 represents the smallest contributor to full year sales, we maintained our controlled stance on inventories after the clean-up efforts last year.

We ended Q1 with inventories at very healthy levels, down over 50% from a year ago and roughly flat to where we ended 2023. Our number of days in inventory were at multi-year lows for Q1 at around 66 days. And while we expect to see our inventory days increase over the next couple of quarters in line with normal business seasonality, we are still planning for total owned inventory levels to finish the year relatively flat versus 2023.

Our much-improved inventory position led to over 50% reduction in closeout sales in the quarter and although this negatively impacted our Consumer Products segment revenue growth, we did realize a margin benefit from the improved sales rate. We expect this trend to continue as we move through Q2.

While improving the profitability of toys and delivering our cost savings target are two of the company's top priorities, I want to emphasize that we are concurrently staying vigilant around what investment opportunities require incremental spend to drive the most profitable revenue across the portfolio. Through greater analytics we are already seeing an improvement in our marketing efficacy, and this is an area we will lean into as we ramp our innovation across toys and games and prepare for a stronger holiday season.

Moving now to our Q1 financial results.

Total Hasbro revenue was $757 million dollars, down 24% versus Q1 of last year. If you exclude the impact of the eOne divestiture, total Revenue was down 9% versus year ago.

Growth of 7% in our Wizards of the Coast segment, led by MAGIC and licensed digital games, and 65% growth in Entertainment driven by a renewal deal for PEPPA PIG, was more than offset by the 21% decline in Consumer Products driven primarily by category declines and reduced volume moving through closeout.

Q1 Adjusted operating profit was $149 million, with an operating margin of 19.6%, up about 15 points year over year. This improvement was largely driven by a reduction in costs stemming from our Operational Excellence program, as well as supply chain productivity gains, and favorable business mix, including the eOne divestiture. In aggregate, we were able to deliver significant margin improvement despite ongoing volume deleverage across our toys business.

Total Hasbro Q1 Adjusted Net Earnings were $85 million, with diluted earnings per share of $0.61, driven by the improvement in operating profit, as well as favorability from a stock compensation adjustment and net interest expense reduction.

Operating Cash Flow was $178 million, an $89 million improvement over the same period last year driven by the increase in net earnings, as well as reduced production expense in connection with our sale of eOne.

We gave back $97 million to shareholders through the dividend and ended the period with $570 million of cash on our balance sheet.

Now let’s look at our two major segments in more detail.

Starting with Wizards of the Coast and Digital Gaming,

Revenue grew 7% behind ongoing digital licensing contributions from *Baldur’s Gate 3* and *Monopoly Go!,* which as a reminder neither recorded revenue in Q1 of last year.

We also saw growth in MAGIC tabletop revenue benefitting from shipments for our latest set release Outlaws of Thunder Junction, which arrived in stores last week, as well as strong reception to our *Fallout* Commander set.

Operating margin for the segment finished at 38.8%, up roughly 13 points year on year, driven by supply chain productivity, cost savings and improved business mix given the growth in digital licensing.

Turning to Consumer Products:

The total revenue decline of 21% was mostly driven by broader market softness across our key brands, exacerbated by a reduction in closeout volume following our inventory clean-up efforts in Q4. We also saw some modest impact from our exited brands, as well as a timing related headwind within our direct-to-consumer platform, Pulse, which is lapping a strong product offering in Q1 of last year.

The volume decline was in line with our expectations and resulted in an improvement in our gross to net sales rate reflecting a more disciplined stance around discounting, which we expect will continue to benefit the CP segment profitability as volumes recover.

As Chris mentioned, we saw some bright spots with the recent launch of FURBLETS, as well as with PLAY DOH and Hasbro Gaming. Conversely, we had continued softness in the blaster category which negatively impacted NERF, as well as action figures due to the light entertainment slate and lapping last year's successful launch of *Transformers Rise of the Beasts*.

Operating margin for Consumer Products came in at negative 9.2%, which is down roughly 2 margin points compared to last year. As expected, we saw a material impact from deleverage associated with the volume decline, which was partially offset with supply chain productivity gains, managed expense savings and improved gross to net selling rate due to lower closeout volume.

It's important to note that the CP gross margins grew by over 5 margin points, demonstrating the improvement in the underlying profitability of the business, despite the negative impact from deleverage.

Turning to guidance for 2024. While we are pleased with our Q1 progress, we recognize that the quarter represents a small portion of our full year sell through for Toys and we want to monitor throughout Q2 our progress in Wizards, particularly in digital licensing and MAGIC before potentially revising our outlook for the full year. So, at this time, we are reaffirming our initial guidance.

As a reminder this calls for:

Total Wizards Revenue to be down 3 to 5 percent. The decline is primarily a result of the strong growth delivered in 2023.

Within Wizards, we continue to plan for Licensed Digital Games to be relatively flat versus last year with contributions from *Baldur's Gate 3* tapering down as we move through the year. For *Monopoly Go!,* we are still planning to record the contract minimum guarantee through the first half of the year and will continue to watch the data closely as we move through the second quarter. If the current trends continue, there could be the ability to book above the minimum guarantee sooner than the second half, but at this time we are holding our initial guidance.

Wizards operating margin will be between 38 and 40%, up 2 points from last year driven by the favorable mix shift within digital, lower royalty rates across MAGIC and strong cost management both in supply chain as well as within operating expenses.

For Consumer Products, Revenue will be down 7 to 12 percent. And operating profit margin will be between 4 and 6 percent. As a reminder, about half of the revenue decline is due to actions we've taken to improve profitability, and the other half is due to prevailing category trends. We continue to expect a similar revenue decline in Q2 as we saw in Q1 with the pace of decline moderating in Q3 and flipping to growth in Q4 behind sharper innovation and marketing effectiveness, as well as healthy retail inventory levels heading into the holidays. However, we expect to see profitability improving as we move through the year as we build volume ahead of the holidays and we realize more of our net cost savings.

For Entertainment, adjusting for the impact of the eOne divestiture, revenue will be down approximately $15 million versus last year and operating margin will be roughly 60%, up significantly driven by operating expense reductions, as well as lapping the impact of the D&D movie impairment in 2023.

We remain firmly on track towards our target of $750M of gross cost savings by 2025 and given the results in Q1 we are on-pace to deliver $200 to $250M of net cost savings in 2024.

And we continue to expect total Hasbro EBITDA in the range of $925 million to $1 billion driven by our cost savings and the lap of non-recurring inventory clean-up charges taken last year, which will more than offset the revenue decline and cost inflation.

Ending cash will be slightly down versus 2023 driven by relatively flat owned inventory levels, increased capital project spending, and additional costs associated with the restructuring actions announced in December.

And from a capital allocation standpoint, our priorities remain to first, invest behind the core business. Second is to return cash to shareholders via the dividend and third to continue progressing towards our long-term leverage targets and pay down debt.

And with that, I'll turn it back to Chris to wrap-up.

Chris Cocks, Hasbro CEO

Thanks Gina. We're pleased with our first quarter performance. We're doing what we said we would do, driving a shift in games and licensing, fixing our toy business, and lowering our costs. It's still early and we have lots of 2024 to go but I think it's fair to say this was a good start to the year.

We'll now pause to take your questions.