

April 28th, 2017

Hasbro, Inc: HAS

Analyst: Joseph Nastasi

Sector: Consumer Discretionary

Industry: Leisure Products

Company Description:

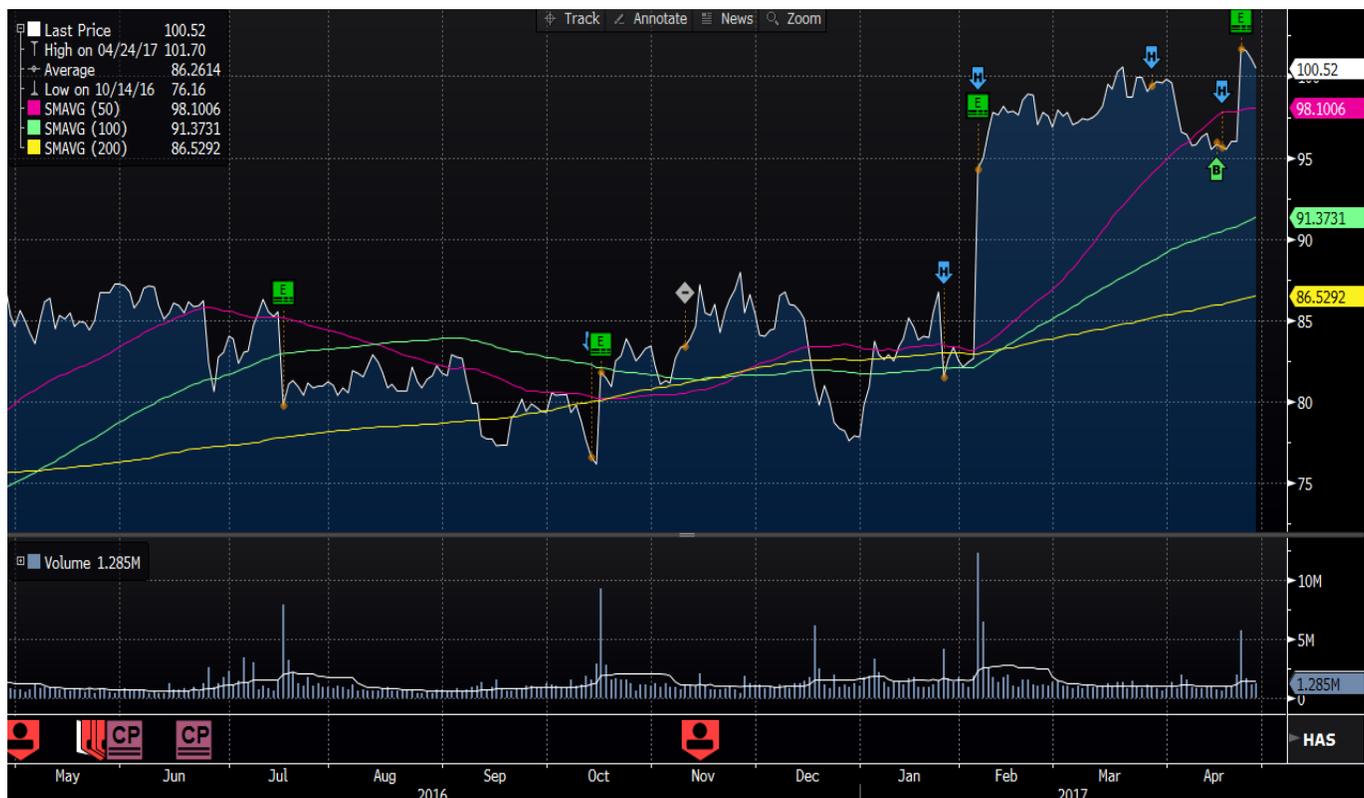
Hasbro is a global play and entertainment company committed to “Creating the World’s Best Play Experiences.” The company’s diverse products include toys and games to television, movies, and digital gaming and consumer products. Hasbro’s iconic brands include Nerf, Transformers, Play-Doh, Monopoly, My Little Pony, and Magic: The Gathering. Hasbro has a strategic partnership with Disney, which allows the company to license popular names and characters from Star Wars and Marvel movies along with other Disney movies. Hasbro was recently named the world’s most ethical company for the sixth year and ranked number one in Newsweek’s 2016 Green Rankings. Hasbro was founded in 1923 and was incorporated in 1968.

BUY

Current Price:	\$99.11
Target Price:	\$118.92
Market Cap:	12.56B
Volume:	1.285M
S&P Debt Rating:	BBB
Ke:	8.3%
ROE:	33.89%
Net Income Margin:	10.98
Total Asset Multiplier:	1.02
Equity Multiplier:	2.78
Cash/Total Assets:	25.2%

Catalysts:

- **Short Term (within the year):** Key licensing agreements with Hasbro's Partner Brands with key motion picture releases upcoming
- **Mid Term (1-2 years):** Hasbro shifting to consumer trends by premiering its own animated movie and increased presence in digital gaming
- **Long Term (3+):** Innovative new products that will lead to improving margins and differentiation from its competitors.

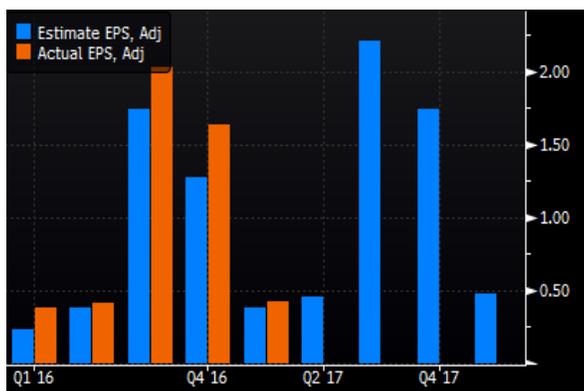


Thesis:

Hasbro is the industry leader in the strength of its rich innovative brand portfolio. Also, with its strategic and licensing partnerships with premiere entertainment brands that attract fans and have key motion picture releases upcoming. Hasbro's 1st quarter earnings significant gains in its numerous brand portfolios and generating \$411.9M in operating cash flow positions the company well for the future. The leisure product industry continues to see significant global growth. Hasbro is shifting to consumer changing trends with the premier of its first animated film, "My Little Pony: The Movie," and increased presence in digital gaming with 43% growth from year-to-year due to its Backflip Studios. Also, with the demographic focus on girls and customers over the age of 14 have seen significant consumption growth. Hasbro uses a small amount of leverage and is much more profitable than its competitors which makes Hasbro the best in class of the Leisure Products industry. Hasbro with its Brand Blueprint strategy will continue to re-invest into its brands, create innovative new content, and connect with consumers.

1st Quarter Earnings Performance:

Hasbro's CEO stated, "Our first quarter results were consistent with the expectations we shared with you in February, and position us well to execute against the major theatrical and content releases as well as innovative new play experiences planned for the full year."



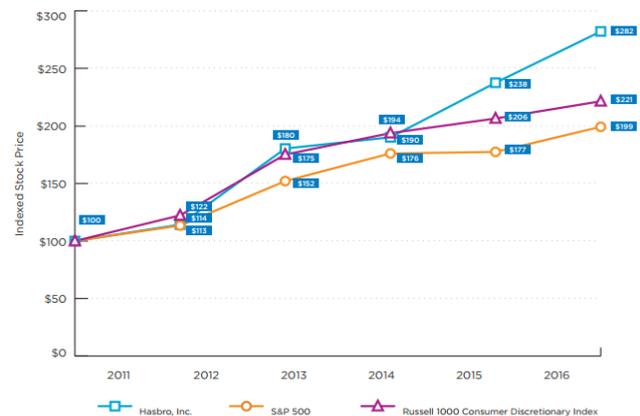
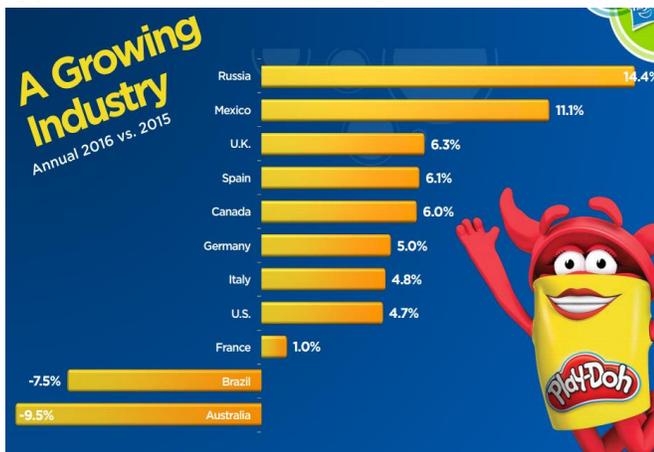
For the first quarter, net revenues were \$879.7M up 2% year-over-year. This included revenue growth of 2% in the U.S. and Canada segment, the International segment remained flat, and emerging market revenues increased 20%. The Entertainment and Licensing segment increased 24% driven by growth in digital gaming, including Backflip Studios. For brand portfolio performance, franchise brands were up 2% led by growth in Nerf, Transformers, and Monopoly. While, My Little Pony revenue declined. Partner brands revenues declined 18% as expected due to Star Wars

and Marvel ahead of movie releases later this year. One specific area of growth was Hasbro gaming up 43% due its diverse brand portfolio of news games, digital games, and classic gaming. This was driven by continued growth in the games Pie-Face and Speak Out. Emerging brand revenue increased 25% behind continued growth in Baby Alive and Furreal Friends. Hasbro's operating profit decreased by 9% due to the strategic shift in product mix to prepare for upcoming theatrical releases and this year's quarter having 14 weeks versus 13 weeks last year. Cost of sales increased 6% to 36% of revenues. Hasbro generated \$411.9M in operating cash flow in the quarter thus ending the quarter with \$1.5B in cash. In the quarter, Hasbro returned \$81.5M to shareholders through its dividend and its repurchase program.

Industry Outlook:

Hasbro is the worldwide leader in the design, manufacture and marketing of the toys and games and other family entertainment offerings, but the industry is highly competitive. Competition is based primarily on meeting consumer entertainment preferences and on the quality and play value of products. In entertainment, Hasbro Studios and Discovery Family Channel compete with other children's and family television networks. There is also competition of obtaining trademarks and copyrights for the names or likeness of characters

from movies, television shows, and other entertainment media. The toys and games industry is a growing global industry. The image below highlights certain countries like Russia growing at 14.4% annually, Mexico at 11.1%, the U.K. at 6.3%, and even the mature U.S. toy industry still growing at 4.7%. The 5-year total return chart shows how Hasbro has outperformed the S&P 500 and Russell 1000 Consumer Discretionary Index. A \$100 initial investment in Hasbro has grown to \$282 in 5-years. This is due to capital appreciation, increasing dividend payout policy, and repurchasing program. Hasbro has been able to outperform its competitors due to its strong franchise brand portfolio and strategic partners in Star Wars, Frozen, The Avengers, and Jurassic World toys. While, competitors like Mattel have not been able to adapt to the changing consumer entertainment environment. For example, Hasbro has taken advantage of the mobile gaming market with its acquisition of Backflip Studios, allowing its classic games to be implemented to digital apps. This has led to revenue growth increase of 24% in the entertainment and licensing segment.



Hasbro is optimistic due to numerous upcoming theatrical releases and their licensing agreements. Firstly, on October 6, 2017 Hasbro's Allspark Pictures and Lionsgate will premier Hasbro's first animated film, "My Little Pony: The Movie." Also, Star Wars Forces of Destiny, an original micro series of animated shorts by Lucasfilms was recently announced along with the upcoming movie Star Wars: Han Solo. Lastly the launch of Hasbro's line of Disney Princess and Frozen fashion dolls with upcoming Disney princess films.

Business Model:

Hasbro's rich portfolio of innovative brands are shown below. These include Franchise & Partner Brands, Gaming Brands, Challenger Brands, and New Brands/Franchise Brands in the Making.



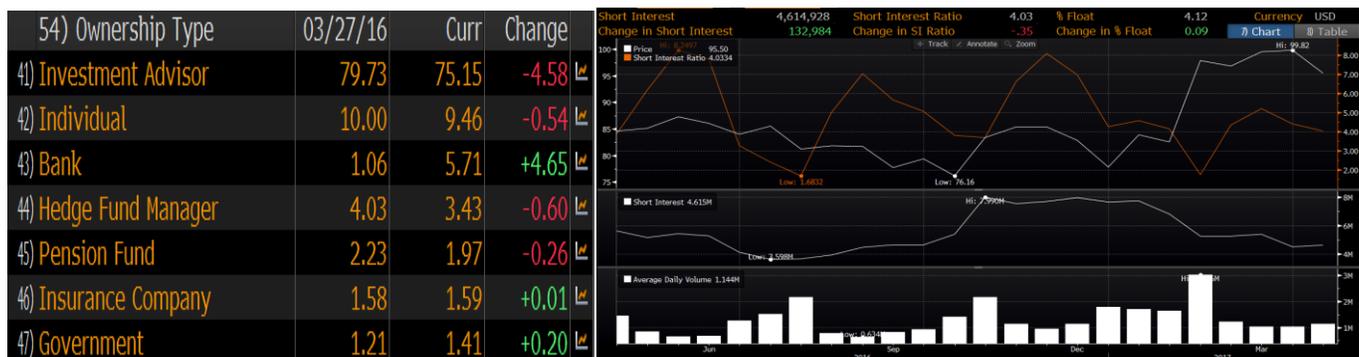
Hasbro operates under the following categories: Franchise Brands, Partner Brands, Hasbro Gaming, and Emerging Brands. The past four years, Hasbro's Franchise Brands revenue has remained relatively constant while losing revenue share to now 46.4% of revenue. Hasbro's Partner Brands have been rapidly increasing in revenue to 28.1% of revenue. Hasbro Gaming recently has recently rapidly increased approximately 23% due to Hasbro's presence in mobile gaming. Hasbro's brands are marketed under the following segments: (1) Boys, (2) Games, (3) Girls, and (4) Preschool Toys. An area of growth is the Girls' toy segment, which has grown in revenue by 28% to over \$1.19B from FY 2015 to FY 2016. This is due to the introduction of the Disney Princess and Frozen Dolls, Transformers toy sales amongst females tripled due to the introduction of strong female characters, and premiere of the "My Little Pony: The Movie" should help continue this positive trend. Hasbro's other rapidly growing demographic are products consumed by customers over 14 years of age, which consume 20% of Hasbro's projects. This is due to growing brands like Dungeons & Dragons that appeal to teenage gamers and digital gaming such as Monopoly, Scrabble, and Yahtzee.

In Millions of USD except Per Share	FY 2013		FY 2014		FY 2015		FY 2016	
12 Months Ending	12/29/2013		12/28/2014		12/27/2015		12/25/2016	
Revenue	4,082.2	100.0%	4,277.2	100.0%	4,447.5	100.0%	5,019.8	100.0%
Boys' Toys	1,237.6	30.3%	1,484.0	34.7%	1,775.9	39.9%	1,849.6	36.8%
Games and Puzzles	1,311.2	32.1%	1,259.8	29.5%	1,276.5	28.7%	1,387.1	27.6%
Girls' Toys	1,001.7	24.5%	1,022.6	23.9%	798.2	17.9%	1,193.9	23.8%
Preschool Toys	531.6	13.0%	510.8	11.9%	596.8	13.4%	589.2	11.7%
Revenue - Supplementary Breakd...	-		4,277.2	100.0%	4,447.5	100.0%	5,019.8	100.0%
Franchise Brands	-		2,345.1	54.8%	2,285.4	51.4%	2,327.7	46.4%
Partner Brands	-		654.1	15.3%	1,101.3	24.8%	1,412.8	28.1%
Hasbro Gaming	-		643.6	15.0%	662.3	14.9%	813.4	16.2%
Emerging Brands	-		634.4	14.8%	398.5	9.0%	466.0	9.3%

Revenues by geographic breakdown are 51% US/Canada, 28% Europe, 9% Latin America, 7% Asia Pacific, and 5% other. Hasbro's products are sold through wholesalers, distributors, chain stores, drug stores, mail order houses, catalog stores, and department stores. Wal-Mart accounts for 18% of revenue, Target for 9%, Toys R US for 9%, and Amazon for 3.17%. Hasbro continues to implement the Brand Blueprint strategy, which is building a 360-degree experience for its fans, children, and their families. Hasbro continuously identify proprietary insight, create engaging storytelling, invent innovative new play experiences, and execute in collaboration with global channel retailers.

Management/Ownership:

The ownership type chart is shown below. Investment advisors own 79.73% and Individuals own 9.46% of common shares outstanding. There has been decreasing position in shares outstanding held by Investment Advisors from one year ago to now. The short interest is at approximately 4.6M and there has been a 134K positive change in short interest. The short interest ratio is at 4.03, which has decreased by 0.35. There is an average of 2.99 days to cover the short interest for Hasbro. Hasbro has a relatively low short interest.



Brian D. Goldner has been at Hasbro since 2000 and has been the Chairman and CEO of Hasbro since 2008. Goldner's compensation has decreased from \$27.4M in 2013 to \$10.58M in 2016, while Hasbro's stock price has increased by over 100% from 2013. Hasbro's total executive compensation has also decreased and has remained relatively stable in recent years. This could be explained by how Hasbro is recognized as one of the most corporate responsible and most ethical company. For example, Hasbro prides itself on being the industry leader with the lowest amount of product defects and recalls.

Name/Title ^(?)	2012	2013	2014	2015	2016
▶ Key Executive Compensation	15,441,658	33,866,914	23,598,541	20,584,496	22,778,768
▶ Brian D. Goldner/Chairman of the Board and Chief Executive Officer	9,684,285	27,440,726	14,623,112	10,285,987	10,542,242
▶ Deborah M. Thomas/Executive Vice President and Chief Financial Officer	1,939,511	2,087,636	2,158,674	2,555,102	2,962,256
▶ John Frascotti/President	1,795,953	2,165,090	2,108,356	2,927,941	3,568,465

Capital Allocation Comparison:

Hasbro uses a small amount of debt for a company of its size and is highly liquid. For FY 2016, Hasbro had \$1.72B in debt compared to \$1.28B in cash. Cash represents approximately 25% of Hasbro's total assets. Total debt has decreased by 4% from 2014, while cash has increased by 43%. This piling of cash gives Hasbro flexibility to take advantage of future opportunities. Hasbro's capitalization is 0.13 compared to its competitors' average of 0.24. Hasbro is far less leveraged. The cost of debt and WACC for Hasbro is at 6% and 12.7%, which is higher than its competitors. However, Hasbro's ROC/WACC at 1.24 is higher than its competitors which is at 0.86. This means even though Hasbro's cost of capital is greater than its competitors, it is still able to have greater value creation due to its higher return on capital.

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	12/29/2013	12/28/2014	12/27/2015	12/25/2016
Market Capitalization	7,129.4	6,916.2	8,438.7	9,754.8
- Cash & Equivalents	682.4	893.2	976.8	1,282.3
+ Preferred & Other	45.4	42.7	40.2	22.7
+ Total Debt	1,396.6	1,798.3	1,711.7	1,721.0
Enterprise Value	7,889.0	7,864.1	9,213.8	10,216.2

Capitalization (Debt/Equity)		Kd		WACC		ROC /WACC					
	History	LFY	History	LFY	History	LFY	History	LFY			
HAS	0.20	0.13	HAS	5.7%	6.0%	HAS	12.3%	12.7%	HAS	1.25	1.24
Competitors	0.24	0.24	Competitors	5.0%	4.7%	Competitors	12.3%	10.8%	Competitors	0.94	0.86

Profitability Comparison:

Hasbro stands out from its competitors due to its profitability and higher margins. Hasbro's revenue, gross profit, EBITDA, net income, and EPS have had a positive trend the past four years. From the last fiscal year, revenue has increased 12.9%, gross profit by 12%, gross margin has remained stable, EBITDA by 15.5%, EBITDA margin by 2%, net income by 27% and net income margin by 13%. Hasbro is able to generate significantly greater revenue per employee at \$0.93 compared to its competitors average at \$0.38. Also, significantly greater ROIC at 15.8% compared to competitors' at 9.3%. Hasbro has an impressive ROE of

32.1%. Hasbro profitability margins are above the industry average in ROE, ROA, gross margin, and profit margin. Compared directly to its closest competitor Mattel, Hasbro has a significant advantage in terms of profitability. This is due to Hasbro developing its brands to adapt to consumer change, while Mattel has not been able to. In terms of activity ratios, Hasbro has a very high cash conversion cycle of 112.30 days compared to Mattel's of 69.28. This is an area where Hasbro needs to improve. Based on profitability, Hasbro is by far the best in class in the Leisure Products Industry. These margins have even greater growth potential with Hasbro's upcoming developments.

Revenue/Total Employees			ROIC		
	History	LFY	History	LFY	
HAS	\$ 0.82	\$ 0.93	15.0%	15.8%	
Competitors	\$ 0.39	\$ 0.38	10.8%	9.3%	

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	12/29/2013	12/28/2014	12/27/2015	12/25/2016
Revenue, Adj	4,082.2	4,277.2	4,447.5	5,019.8
Growth %, YoY	-0.2	4.8	4.0	12.9
Gross Profit, Adj	2,419.4	2,578.8	2,770.5	3,114.3
Margin %	59.3	60.3	62.3	62.0
EBITDA, Adj	778.4	791.8	844.2	975.4
Margin %	19.1	18.5	19.0	19.4
Net Income, Adj	372.3	408.7	445.0	566.1
Margin %	9.1	9.6	10.0	11.3
EPS, Adj	2.82	3.14	3.52	4.46
Growth %, YoY	0.8	11.4	11.8	26.7

Name	ROE:Y	ROA:Y	GM:Y	PM:Y	EBITA Mrgn:Y	Ast TO:Y	A/R Trnvr:Y	A/P Turnover:Y	Cash Conversion Cycle:Y	Finl Lev:Y
Median	11.25%	6.01%	50.33%	8.42%	16.51%	0.63	6.57	7.34	52.41	1.58
HASBRO INC	32.10%	11.54%	62.04%	11.28%	16.39%	1.02	3.96	6.81	112.30	2.78
MATTEL INC	14.64%	5.64%	46.81%	6.74%	10.00%	0.84	4.83	4.45	69.28	2.58
NEXON CO LTD	12.56%	10.82%	73.72%	25.63%	24.30%	0.42	6.15	4.73	--	1.16
BANDAI NAMCO HOLDIN...	11.52%	8.02%	35.20%	6.20%	--	1.29	7.23	6.28	36.07	1.44
NCSOFT CORP	14.95%	11.93%	80.93%	27.77%	34.04%	0.43	7.95	20.96	29.89	1.25
TAKE-TWO INTERACTIVE...	11.22%	2.67%	42.43%	4.54%	8.76%	0.59	7.32	23.39	42.45	4.21
KONAMI HOLDINGS CORP	9.00%	6.05%	34.99%	7.75%	--	0.78	9.22	8.89	23.33	1.49
UBISOFT ENTERTAINMENT	11.28%	5.97%	78.12%	8.08%	40.90%	0.74	6.29	2.03	-99.21	1.89

Summary:

In conclusion, Hasbro is a buy at its current price due to its upward growth potential. Hasbro has the competitive advantage of a rich innovative brand portfolio and partnership with premiere entertainment brands. Hasbro has strong and consistent free cash flow grow generation, which is invested back into Hasbro's brands and returned to shareholders. Hasbro is continuously shifting its portfolio of brands into high growth areas such as mobile gaming and premiering box office movies. Hasbro has strong management leadership that has earned the awarded the company as the world's most ethical company for the sixth year and ranked number one in Newsweek's 2016 Green Rankings. Hasbro's one-year target price of \$118.92, a 19.99% return, is reasonable due to their upward growth potential.

Hasbro, Inc. (HAS)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Joseph Nastasi
4/27/2017

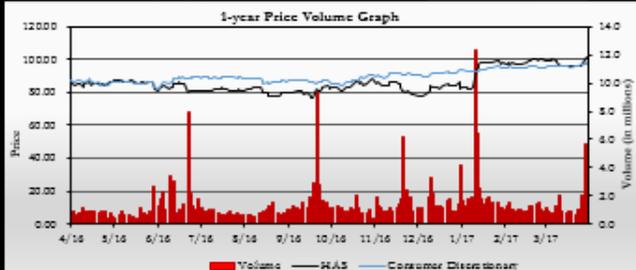
Current Price:
Dividend Yield:

\$100.52
2.1%

Intrinsic Value
Target Price:

\$112.33
\$118.92

Target 1 year Return: 20.38%
Probability of Price Increase: 96.8



Description	
Hasbro, Inc., together with its subsidiaries, operates as a play and entertainment company.	
General Information	
Sector	Consumer Discretionary
Industry	Leisure Products
Last Guidance	November 3, 2015
Next earnings date	July 24, 2017
Estimated Country Risk Premium	8.24%
Effective Tax rate	33%
Effective Operating Tax rate	31%

Market Data	
Market Capitalization	\$12,565.68
Daily volume (mil)	1.28
Shares outstanding (mil)	125.01
Diluted shares outstanding (mil)	127.04
% shares held by institutions	74%
% shares held by investments Managers	72%
% shares held by hedge funds	4%
% shares held by insiders	8.67%
Short interest	3.63%
Days to cover short interest	2.93
52 week high	\$104.14
52-week low	\$76.14
Levered Beta	0.86
Volatility	22.76%

Past Earning Surprises	
Quarter ending	Revenue
3/27/2016	-0.18%
6/26/2016	-2.64%
9/25/2016	5.01%
12/25/2016	3.10%
4/2/2017	-3.03%
Mean	0.44%
Standard error	1.6%

Peers	
Mattel, Inc.	24.33%
Brunswick Corporation	-3.23%
Harley-Davidson, Inc.	11.06%
Polaris Industries Inc.	21.46%
JAKKS Pacific, Inc.	-21.21%
Activision Blizzard, Inc.	6.47%
	8.4%



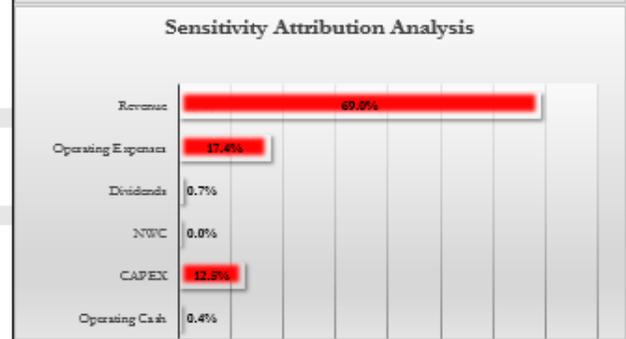
Management	Position
Goldner, Brian	Chairman and Chief Executive
Fraschetti, John	President
Thomas, Deborah	Chief Financial Officer and
Billing, Duncan	Chief Strategy Officer and E
Tinga, Wiebe	Chief Commercial Officer and
Courtney, Thomas	Executive Vice President of

Total compensations grow		Total return to shareholders	
6.3% per annum over 5y	15.16% per annum over 5y	5.36% per annum over 5y	5.36% per annum over 5y
10.86% per annum over 5y	5.3% per annum over 5y	5.36% per annum over 5y	5.36% per annum over 5y
13.34% per annum over 2y	21.34% per annum over 2y	21.34% per annum over 2y	N/M
N/M	N/M	N/M	N/M

Profitability	HAS (LTM)	HAS (5 years historical ave)	Industry (LTM)
ROIC	16.3%	17.98%	11.64%
NOPAT Margin	15%	15.30%	8.8%
Revenue/Invested Capital	1.11	1.18	1.32
ROE	25.0%	32.55%	13.47%
Adjusted net margin	14%	13.63%	7.7%
Revenue/Adjusted Book Value	1.83	2.39	1.75

Invested Funds	HAS (LTM)	HAS (5 years historical ave)	Industry (LTM)
Total Cash/Total Capital	21.3%	20.7%	25%
Estimated Operating Cash/Total Capital	16.1%	17.3%	N/A
Non-cash working Capital/Total Capital	8.2%	15.7%	19%
Invested Capital/Total Capital	82.7%	81.4%	75%

Capital Structure	HAS (LTM)	HAS (5 years historical ave)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.15	0.24	0.21
Cost of Existing Debt	5.82%	6.05%	4.58%
Estimated Cost of new Borrowing	5.06%	4.81%	4.58%
CGFS Risk Rating	C	CC	CC
Unlevered Beta (LTM)	0.76	0.81	0.75
WACC	3.35%	10.10%	3.70%



Porter's 5 forces (scores are out of 100)



Period	Revenue growth	Valuation NOPAT margin	ROIC/WACC
Base Year	10.4%	15.2%	1.70
4/2/2018	4.3%	15.2%	1.45
4/2/2019	3.0%	15.4%	1.45
4/2/2020	3.1%	16.7%	1.56
4/2/2021	3.2%	18.0%	1.69
4/2/2022	3.3%	19.4%	1.83
4/2/2023	3.5%	20.3%	2.00
4/2/2024	3.6%	22.5%	2.18
4/2/2025	3.7%	24.0%	2.38
4/2/2026	3.8%	25.6%	2.58
4/2/2027	3.9%	27.2%	2.79
Continuing Period	4.0%	28.8%	2.57

Period	Invested Capital	Net Claims	Price per share
Base Year	\$2,794.87	\$1,786.14	\$113.40
4/2/2018	\$3,380.51	\$2,138.36	\$119.25
4/2/2019	\$3,716.75	\$1,433.07	\$133.73
4/2/2020	\$4,109.56	\$623.25	\$148.68