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BJORKLUND FUND

December 09, 2017

Hasbro, Inc.: HAS

Ryan Rosmarin

Sector: Consumer Discretionary
Industry: Toys & Entertainment
Current Price: $93.02
Target Price: $111.19

Company Description: Hasbro, Inc. is a global play and entertainment company committed to creating the best entertainment experience around the world. Through deep consumer engagement and the application of consumer insights, Hasbro uses immersive storytelling to develop brands, innovate new products, and effectively reach customers around the world. Products include toys, games, television programming, motion pictures, and digital gaming, which continue to expand along with the brands of its strategic partners. Hasbro organizes these licensed intellectual properties within the brand architecture with a focus on their four core categories of Franchise Brands, Partner Brands, Hasbro Gaming, and Emerging Brands.

BUY

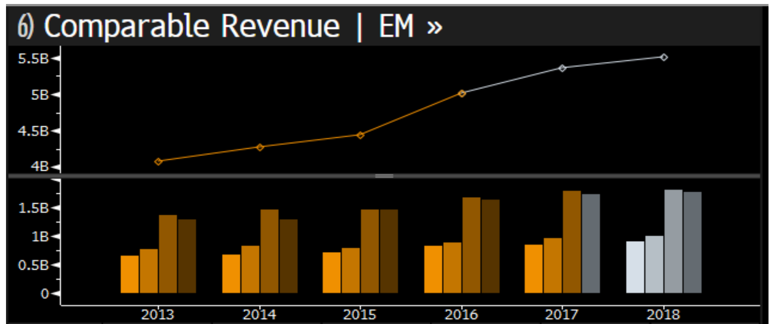
Current Price:	$93.02
Target Price:	$111.19
Target Return:	21.94%
Market Cap:	11.6B
52 Week Range:	$77.20-$116.20
Average Volume:	1.05M
D/E Ratio:	0.96
ROIC:	16.58%
WACC:	7.79%
12M Total Return:	8.12%

Catalysts:

- **Short-Term** (within the year): Release of fourth quarter earnings report and increased sales due to seasonality.
- **Mid-Term** (1-2 years): Potential acquisition of Mattel and forecasted growth associated with the strong correlation of the Consumer Discretionary sector to the market as a whole.
- **Long-Term** (3+years): Continual growth and development of world-renowned brands and products in the toys and entertainment industry.

Thesis:

Hasbro, Inc. is the leading force in the world's toy and entertainment industry and will continue to drive demand through seasonality effects and the release of new products as we move through the fourth quarter. Currently valued slightly below the middle of its 52-week price range, Hasbro is underpriced compared to the Consumer Discretionary sector and presents a great buying opportunity for stock appreciation. In addition to forecasted growth in the fourth quarter, Hasbro may strike a deal to acquire its competitor Mattel, largely expanding its product platform and driving its potential for greater long-term growth. With steady sales and margin growth, Hasbro can drive returns near 22% as it catches up to the market, making it an attractive investment with high growth potential for both short and long-term investment strategies.

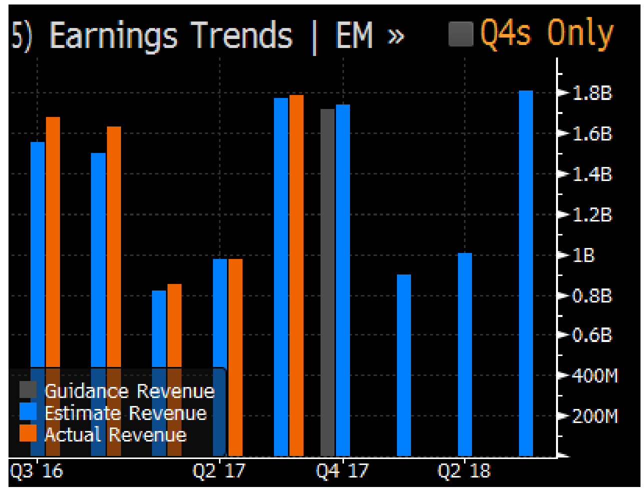


(USD)	2013	2014	2015	2016	2017	2018
FY	4.1B	4.3B	4.4B	5.0B	5.4B	5.5B
Q1	663.7M	679.5M	713.5M	831.2M	849.7M	898.3M
Q2	766.3M	829.3M	797.7M	878.9M	972.5M	1.0B
Q3	1.4B	1.5B	1.5B	1.7B	1.8B	1.8B
Q4	1.3B	1.3B	1.5B	1.6B	1.7B	1.8B

Business Overview:

Hasbro, Inc. is the leading force in the global play and entertainment industry and are committed to creating the best play experiences around the world. Hasbro organizes its owned, controlled, and licensed intellectual properties with their brand architecture, focusing on their core business categories of Franchise Brands, Partner Brands, Hasbro Gaming, and Emerging Brands. Hasbro creates significant growth opportunity through their brand architecture, allowing them to leverage existing brand competencies outside the confines of their traditional product categories. Hasbro's franchised brands portfolio consists of Littlest Pet Shop, Magic: The Gathering, Monopoly, My Little Pony, Nerf, Play-Doh, and Transformers. In addition to their franchise brands, Hasbro also offers a large portfolio of popular partner brands including Marvel super-heroes, Star Wars, Disney, DreamWorks, and Sesame Street. Hasbro capitalizes on the theatrical releases of movies from these companies such as Star Wars: The Last Jedi, Jurassic World 2, Spider-man, and Guardians of the Galaxy by selling product lines directly related to the films and its series. Hasbro continues to revolutionize traditional game play as well through its strong portfolio of board games, digital integration, and introduction of new gaming brands and play experiences. Hasbro's gaming portfolio includes Connect 4, Jenga, The Game of Life, Operation, Scrabble, Trivial Pursuit, Twister, and many others. The Emerging Brands category consists of Hasbro brands, which have not achieved Franchise Brand status, but have the potential and ability to do so. Products include Baby Alive, Furby, Playskool, and many others. In order to build upon its brands and product lines, Hasbro focuses on reinforcing storylines associated with their brands through several outlets including television, motion pictures, and digital gaming. Hasbro's wholly owned production studio develops and delivers the distribution of television programming on a global scale through several platforms including Netflix and iTunes. Hasbro Studios primarily distributes programming to Discovery Family Channel, their joint venture with Discovery Communications, and also began distributing through other channels such as Cartoon Network in 2015. In 2014, Hasbro formed their film label Allspark Picture, which produces both animated and live action theatrical releases based on their brands. Hasbro also recently purchased 100% stake in Backflip Studios, LLC, to leverage and increase their position in the digital gaming industry. Hasbro markets their products through their four categories Boys, Games, Girls, and Preschool Toys, which have a 3-year CAGR of 14.33%, 1.89%, 6.02%, and 3.49% respectively. 51.3% of Hasbro's revenues are collected in the United States while 48.7% are collected internationally.

Quarter 3 Earnings Performance:

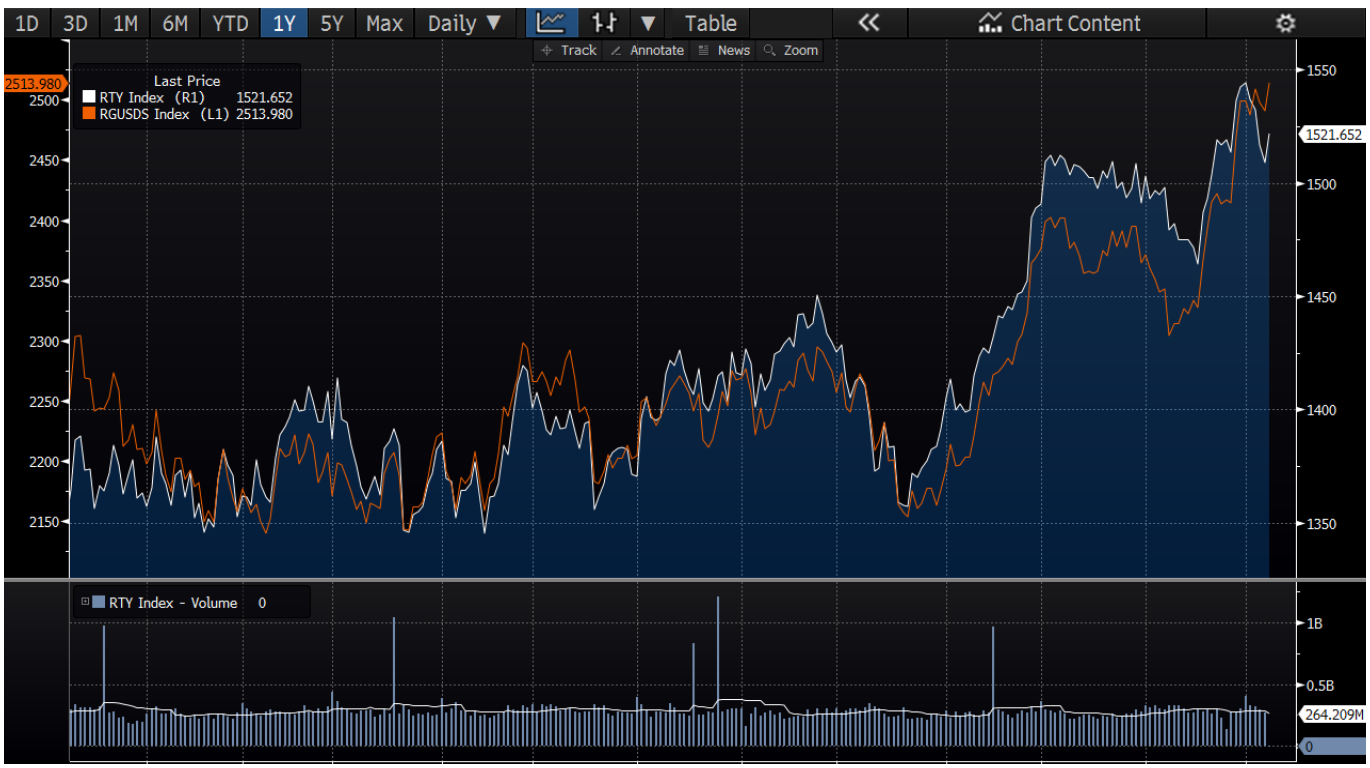


In Q3 2017, Hasbro earned $1.79bn in revenue, increasing 7% year-over-year and beating consensus of $1.77bn. Quarter 3 EPS reached $2.09 beating consensus of $1.94 and was driven by better-than-expected revenue in Franchise, Gaming, and Emerging brands, offsetting a miss in partner brands. Q3 Operating Profit Margins were 20.1% totaling $361mn, reflecting lower-than-expected royalty expense, product development, production cost amortization, and D&A. U.S. and Canada operating profit declined 5% yoy to $217.3mn due to a shift in product mix and revenue impact of Toys R US. Although sales beat consensus for the quarter, they missed estimates due to headwinds from the bankruptcy filing of Toys R US, which reduced gross profit and forced Hasbro to increase its advertising expenses. Despite headwinds, revenues still grew in each operating segment with double-digit consumer takeaway globally at retail. Revenue significantly increased due to growth led by Nerf, Transformers, My Little Pony, Monopoly, Baby Alive, Furreal Friends, Speak Out, and Twister. Revenue grew in developed economies such as the US, Canada, France, Germany, Mexico, and Australia, with emerging markets revenue growing 8% in China, Russia, and India, including a $27.9mn favorable impact from foreign exchange. Franchise, Gaming, and Emerging brands increased 7%, 22%, and 9% respectively with Nerf as the leading brand driving double digit growth. Hasbro ended Q3 returning $164mn to shareholders through their dividend and repurchase program. With $71.4mn paid out in dividends and $92.9mn repurchased in common shares, Hasbro continues to work towards their target of $150mn in share repurchase by year-end. Q3 cash on hand of $1.2bn leaves Hasbro well positioned to capitalize on the innovation and releases in the marketplace as the holiday season approaches. Entertainment and licensing segment revenues increased 4% with high consumer product demand with Hasbro's entertainment initiatives. Segment operating profit increased 20% to $16.9mn and other income increased to $14mn. In Q3, Hasbro refinanced $350mn of 6.3% maturing debt by issuing $500mn of new 10-year debt at a rate of 3.5%. Hasbro refinanced to take advantage of the low interest rate environment and believes that the new deal will significantly lower their cost of capital over the next 10 years. In addition, the tax rate environment looks beneficial for Hasbro, as their rate has fallen from 26% to 23.5%. Receivables increased 14% and days sales outstanding increased 5 days to 83 days.

FY17 Guidance & Growth Outlook:

Hasbro outlook for 2017E forecasts 4Q17 revenue growth between 4-7% to $1.74bn and $5.36bn for 2017. EBIT Margins are expected to be 15.7%, totaling $302mn for the quarter and $841mn for the year. 4Q17 EPS is projected to come in between $0.11-$0.13 and Hasbro is expected to save $4mn in annual interest expense due to their third quarter debt refinancing. From a segmented standpoint, revenue is Franchise Partner, Gaming, and Emerging brands are forecasted at $2.6bn, $1.4bn, $980mn, and $482mn respectively for 2017. By 2019, revenues in Franchise, Partner, Gaming, and Emerging brands are expected to grow to $2.81bn, $1.4bn, $1.1bn, and $507mn respectively, totaling $5.82bn driven by its robust portfolio of entertainment-backed products. This will allow Hasbro to successfully navigate through the toy retail environment. Hasbro's Boys category will likely benefit from a significant amount of movie support from Marvel's 2018 films, three consecutive Transformers films from 2017-2019, and the releases of new Star Wars films every year until 2019 at least. Growth is also forecasted in the Girls category through the release of various Disney products and films associated with Disney Princess, Frozen, and Beauty and the Beast.

Industry Analysis:



The overall forecast for the Consumer Discretionary sector continues to look promising, as it is highly correlated to the overall performance of our current bull market environment. The Russell Consumer Discretionary Index (RGUSDS) is returning 14.26% YTD compared to the 12.13% growth in the Russell Index (RTY), slightly beating it by 2.13%. Main drivers of the index continue to be changes in U.S. employment and interest rates. As the unemployment rate sits below average around 4.1% and interest rates continue to remain low, the Consumer Discretionary index is likely to grow higher driven by increased consumer demand and spending levels. With enthusiasm broad across income brackets, 37% of consumers plan to spend more this holiday than the 33% who plan to spend less. Spending is expected to accelerate at higher levels as the holidays approach nearer. In a more narrowed aspect, toys and games are expected to make up 20% of market demand led by the millennial generation. Although headwinds have affected the sector form the Chapter 11 bankruptcy filing by Toys R Us, impacts are expected to be benign on Hasbro. Toys R Us stores are likely to remain open through the 2017 holiday season causing minimal disruption and allowing critical vendors to recover parts of their accounts receivables. Unsecured claims by Hasbro are lower than expected ($59mn) compared to its competitors, showing that they likely actively managed their Toy exposure, as unpaid claims typically cannot be received under U.S. bankruptcy law. Toys R Us also filed a motion to pay certain pre-petition claims of critical vendors (Hasbro, Mattel, etc.) for $115mn on an interim basis and $325mn on a final basis. If only the top 5 critical vendors are deemed critical, Hasbro will will recover their entire claim. Despite slight headwinds, this holiday season remains a positive growth environment for Hasbrow who will continue to be the leading provider in the toy and entertainment industry. Another driver of the industry is the economic optimism under the Trump Administration.

Peer Analysis:

Hasbro, Inc. is the leading force in the toy and entertainment industry and has the largest market share compared to its competition that consists of significantly smaller companies. With the a steady sales growth of 8.0%, Hasbro leads its competitors in margins with an EBITDA margin, EBIT margin, and Net Income margin of 19.0%, 15.8% and 11.6% respectively. Hasbro has benefited from a decrease of around 3% in their tax rate and their debt refinancing of lower interest rates, allowing them increase profit margins and reduce the gap between Operating and Net Profit margins. In addition, Hasbro leads its competitors with an ROIC of 17.64%, over 13% higher than the median of its peers. This shows that Hasbro uses its capital more efficiently and invests more effectively into its operations. Major risks to Hasbro's operations include toy demand, disruptive innovation both in and outside the toy industry, distruptions in global trade, product recalls, and the loss of toy licenses.

Name (BICS Best Fit)	Sales Growth (%)	EBITDA Margin	Operating Income Margin	Net Profit Margin	Return on Invested Capital
Median	8.43%	12.40%	8.61%	6.46%	4.21%
100) HASBRO INC	8.00%	19.00%	15.78%	11.58%	17.64%
101) BANDAI NAMCO HOLDIN...	6.20%	13.08%	9.34%	6.85%	--
102) RASTAR GROUP -A	29.64%	--	8.57%	9.39%	4.21%
103) ALPHA GROUP-A	8.86%	--	8.66%	6.08%	1.05%
104) MATTEL INC	-9.19%	9.49%	4.38%	-11.38%	-15.19%
105) TOMY COMPANY LTD	10.50%	11.72%	6.55%	5.09%	7.79%

Mattel Acquisition:

On November 10, Hasbro reportedly made a takeover offer to acquire Mattel, one of its top competitors in the toy and entertainment industry. This deal comes at a time when Hasbro is on track to surpass Mattel as the largest U.S. toy company for the first time ever. In recent years, Mattel has failed to grow its product portfolio, realizing significant declines in its key brands and cutting its dividend payment by more than 50% in June. Mattel produces well-known brands such as Barbie, Fisher-Price, and American Girl that could significantly expand its brand portfolio and market share in its Girls and Preschool segments. This acquisition could potentially apply the much needed turn around for Mattel's brand and greatly improve margins as Mattel would be operated under Hasbro's management and strategy. Mattel's recent decline in margins to 42.6% have been caused largely by falling revenue and the expenses of actually owning their asset-heavy manufacturing facilities. This acquisition would benefit Hasbro from improved scale, which could help Hasbro in their negotiations with retail customers, content licensing partners, and third-party manufacturers.

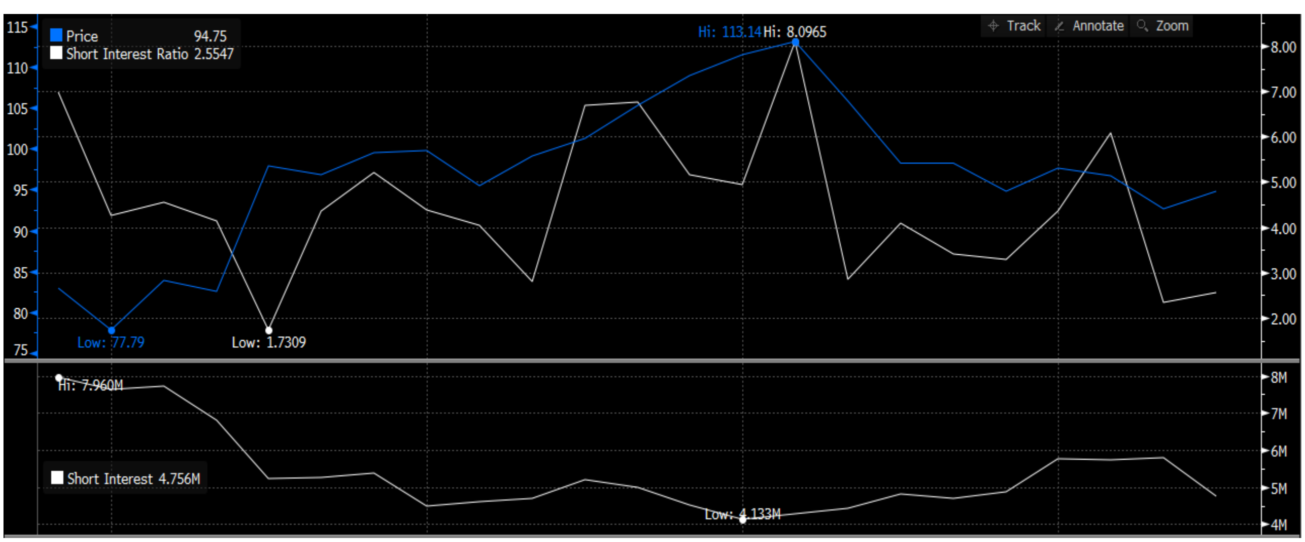
Ownership Summary:

Hasbro is primarily held by investment advisory firms (79.48%) and individual investors (6.74%). Over the past year, there has been minimal changes to the proportion of ownership levels in Hasbro as investment advisors and hedge funds have only increased 4.32% and 0.19% respectively. Top investment advisory holders are Vanguard Group, Blackrock, and Capital Group Companies Inc. with positions of $12.9mn, $10.8mn, and $6.2mn, respectively. Other large investment firms that have a significant stake in Hasbro are Wells Fargo, Goldman Sachs, Morgan Stanley, and Bank of New York Mellon. Shares are primarily held in the United States, followed by the United Kingdom and Japan with ownership levels of 79.99%, 5.84%, and 1.47% respectively. Hasbro has 92.30% of its shares outstanding as freely floated with 4.14% in short interest. Short interest has decreased significantly from a high of 8.09 days in July to 2.55 days to cover in December showing that investors are confident and increasing their long positions on Hasbro. Percentage of shares held and percentage of float held have increased 16.67% and 16.59% respectively, while the number of institutions holding Hasbro have increased 13.25%. In addition, the number of investors and number of new investors in Hasbro have also increased 21.71% and 35.23% respectively.

Top Ownership Type (%)

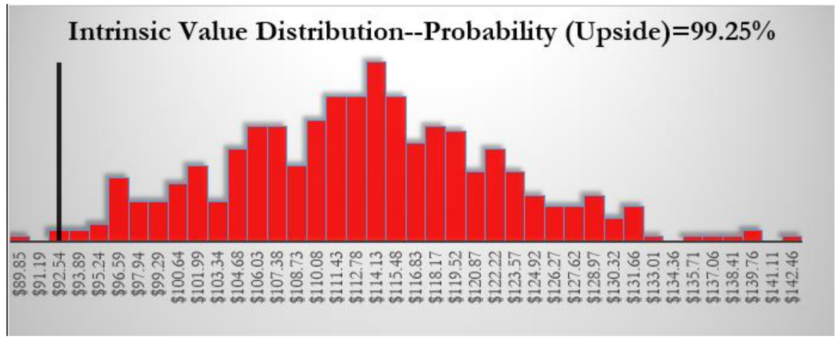
54) Ownership Type	11/27/16	Curr	Change
41) Investment Advisor	75.16	79.48	+4.32
42) Individual	9.19	6.74	-2.45
43) Bank	6.06	4.32	-1.74
44) Hedge Fund Manager	3.09	3.28	+0.19
45) Pension Fund	2.16	2.14	-0.02
46) Insurance Company	1.66	1.58	-0.08
47) Government	2.24	1.05	-1.19
48) Sovereign Wealth Fund	0.01	1.00	+0.99
49) Brokerage	0.18	0.22	+0.04

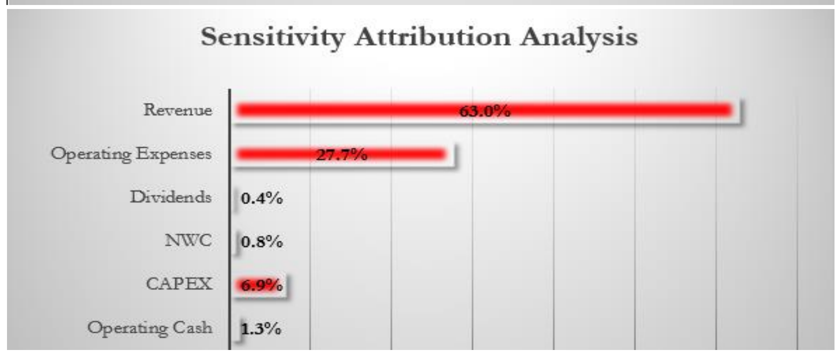
52) Fund Objective	11/27/16	Curr	Change
21) Blend	33.10	33.97	+0.87
22) ETF	17.36	22.07	+4.71
23) Value	16.39	14.41	-1.98
24) Asset Allocation	14.76	11.55	-3.21
25) Growth	11.92	10.30	-1.62
26) Unclassified	1.26	2.61	+1.35
27) Country Fund	2.55	1.84	-0.71
28) Long Short	1.07	1.23	+0.16
29) Market Neutral	0.39	0.84	+0.45



Forecast:

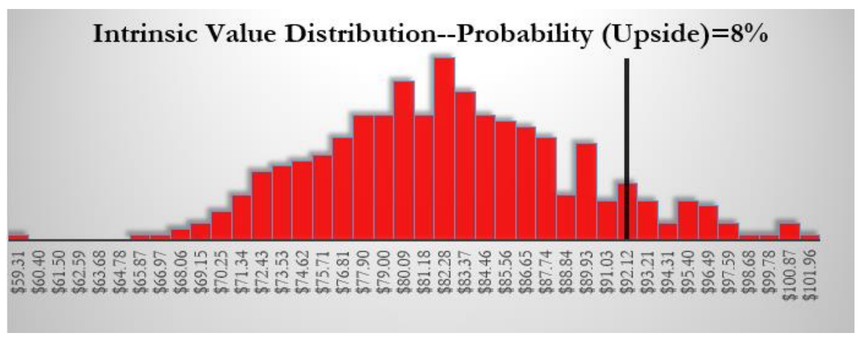
Hasbro's price is very sensitive to revenue as it heavily relies on its ability to innovate and drive demand within its various product lines. Operating costs are relatively low compared to the industry since Hasbro is light in assets and does not own their manufacturing facilities. In the current bull market environment, Hasbro has the potential to increase its stock price to $111.19, appreciating 21.94% from its current price level. This assumes that Hasbro is able to maintain their steady sales growth with a constant growth rate of 3.86%. Operating costs will also continue to decrease towards 75% of sales as Hasbro increases their margins.

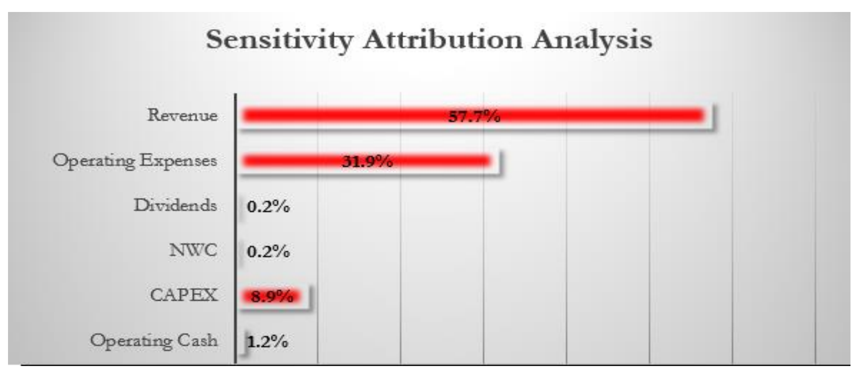




Downside Risk:

Hasbro's downside risk is a stock price depreciation of 10.72% to $80.84 per share with a probably upside of only 8%. This forecast assumes that Hasbro achieves its low earnings estimates and is only able to grow at a constant growth rate of 3%. Operating expenses have a larger effect as they would remain around 80% of sales, causing a decline in margins. This scenario is unlikely, but possible if the toy and entertainment industry takes a downward turn. Consumer Discretionary could potentially decline if interest rates rise and the stock market loses stamina and begins to fall, due to its high correlations. Demand could also fall if consumers chose to purchase electronics and other forms of entertainment in lieu of toys and games for their children.





Conclusion:

Growth forecasts within the Consumer Discretionary sector and market as a whole provide a positive outlook for Hasbro, Inc., the leading provider in the toys and entertainment industry. With demand in toys and entertainment increasing as we approach the holidays, Hasbro holds a strong position to grow profits as consumers are healthy and spending more. Organic growth will also continue to accelerate as popular movies such as Star Wars, Marvel's Heroes, and Disney films are released through year-end and into 2018, creating strong demand among consumers for related product lines. Hasbro continues to add new brands and products to its portfolio, and has significant growth potential with the opportunity to acquire Mattel and its well-known products. Hasbro will appreciate 21.94% within the next year and provides a strong buying opportunity for both short and long-term investment strategies.

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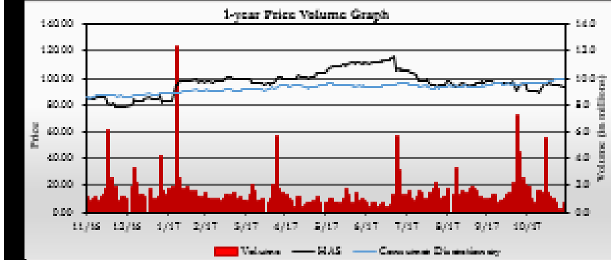
Hasbro, Inc. (HAS) — **BULLISH**

Analysis by RYAN ROSMARIN	**Current Price:**	$93.02	**Intrinsic Value**	$99.96	**Target 1 year Return: 21.94%**
12/5/2017	**Divident Yield:**	2.4%	**Target Price**	$111.19	**Probability of Price Increase: 93**



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	February 5, 2018
Estimated Country Risk Premium	6.57%
Effective Tax rate	21%
Effective Operating Tax rate	21%

Market Data

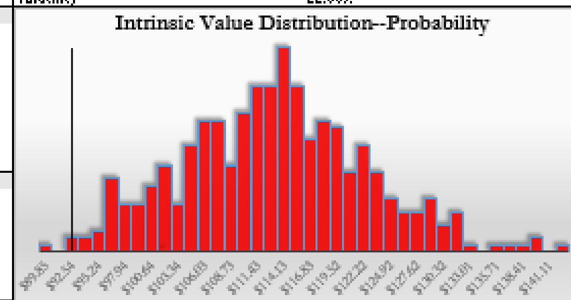
Market Capitalization	$11,586.16
Daily volume (mil)	1.05
Shares outstanding (mil)	124.56
Diluted shares outstanding (mil)	127.11
% shares held by institutions	116%
% shares held by investments Managers	71%
% shares held by hedge funds	3%
% shares held by insiders	7.53%
Short interest	3.82%
Days to cover short interest	3.12
52 week high	$116.20
52-week low	$77.20
Volatility	22.68%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/25/2016	7.87%	11.56%
12/25/2016	8.66%	25.03%
4/2/2017	3.89%	-8.31%
7/2/2017	-0.01%	3.00%
10/1/2017	1.00%	4.20%
Mean	4.28%	7.10%
Standard error	1.8%	5.5%

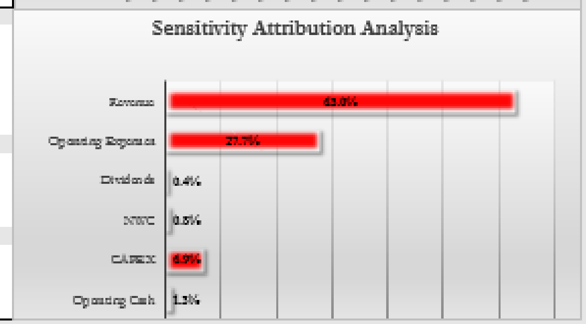
Peers

Mattel, Inc.
Brunswick Corporation
Harley-Davidson, Inc.
Polaris Industries Inc.
JAKKS Pacific, Inc.
Activision Blizzard, Inc.

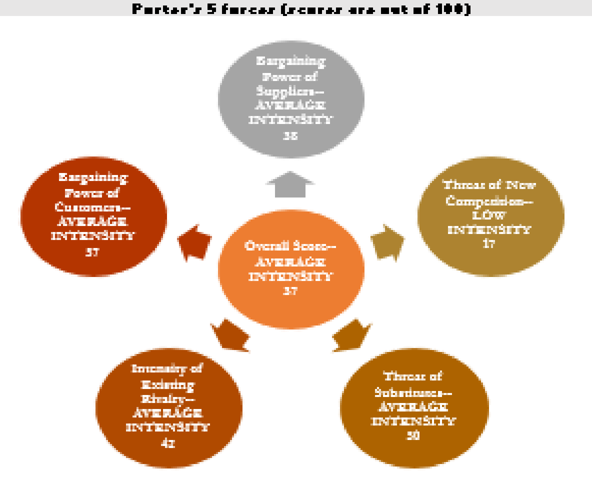


Management	Position	Total compensation growth	Total return to shareholders
Goldner, Brian	Chairman and Chief Executive	-14.98% per annum over 5y	-5.55% per annum over 5y
Frascotti, John	President	9.15% per annum over 5y	-5.55% per annum over 5y
Thomas, Deborah	Chief Financial Officer and	6.41% per annum over 5y	-5.55% per annum over 5y
Billing, Duncan	Chief Strategy Officer and E	2.84% per annum over 5y	-5.55% per annum over 5y
Tinga, Wiebe	Chief Commercial Officer and	-0.14% per annum over 1y	25.06% per annum over 1y
Courtney, Thomas	Executive Vice President of	N/M	N/M

Profitability	HAS (LTM)	HAS (5 years historical a	Peers' Median (LTM)
Return on Capital (GAAP)	19.0%	9.80%	15.66%
Operating Margin	12%	8.43%	8.89%
Revenue/Capital (GAAP)	1.61	1.16	1.76
ROE (GAAP)	24.2%	13.9%	26.7%
Net margin	11.5%	7.5%	9.1%
Revenue/Book Value (GAAP)	2.10	1.84	2.92
Invested Funds	**HAS (LTM)**	**HAS (5 years historical a**	**Peers' Median (LTM)**
Cash/Capital	30.9%	19.7%	19.9%
NWC/Capital	24.1%	15.3%	12.1%
Operating Assets/Capital	33.1%	52.1%	50.9%
Goodwill/Capital	12.0%	12.9%	17.0%
Capital Structure	**HAS (LTM)**	**HAS (5 years historical a**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.43	0.43	0.42
Cost of Existing Debt	5.5%	6.1%	4.3%
CGFS Rating (F-score, Z-score, and default Prob	AA	A	BBB
WACC	10.7%	11.2%	9.4%



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



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	8%	15.1%	1.20
10/1/2018	5%	13.7%	1.09
10/1/2019	6%	14.0%	1.04
10/1/2020	1%	13.9%	0.97
10/1/2021	2%	14.3%	0.91
10/1/2022	2%	17.4%	0.87
10/1/2023	2%	17.9%	0.82
10/1/2024	3%	18.4%	0.77
10/1/2025	3%	18.8%	0.74
10/1/2026	3%	19.3%	0.71
10/1/2027	4%	19.8%	0.69
Continuing Period	4%	20.3%	0.67

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	18.2%	10.7%	$99.06
10/1/2018	14.9%	10.7%	$110.05
10/1/2019	14.5%	10.6%	$120.26
10/1/2020	13.4%	10.6%	$130.65
10/1/2021	13.1%	10.6%	$141.14
10/1/2022	15.1%	10.6%	$151.76
10/1/2023	14.6%	10.5%	$162.51
10/1/2024	14.2%	10.5%	$173.37
10/1/2025	13.9%	10.5%	$184.32
10/1/2026	13.7%	10.5%	$195.31
10/1/2027	13.6%	10.4%	$206.29
Continuing Period	13.5%	10.4%	