

Hasbro Inc. (NYSE: HAS)

Sector: Consumer Discretionary



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$112.69	\$94.12	\$88.00	\$116.20	19.18	\$11.4 B	2.49%	1.18

Business Description

Hasbro, Inc. is an American play and entertainment company. It is the third largest toy maker in the world and produced revenues of approximately \$5 billion in 2016. Hasbro's operating segments are currently U.S. & Canada, International, Entertainment & Licensing, and Global Operations. In its pursuit for realignment, Hasbro will be changing these segments to Franchise & Partner Brands, Hasbro Gaming Brands, and Emerging Brands. This is a part of its strategy to move away from manufacturing and towards licensing and entertainment. Hasbro has presence in Europe, Asia Pacific, and Latin and South America.

Industry Trends

There are three primary industries that Hasbro operates in: toy & game, digital gaming, and visual media. The toy & game industry is an interesting and active one right now due to Toys R Us' bankruptcy and growing ecommerce – particularly in the form of Amazon. We believe Hasbro's alignment with Walmart and Target will mitigate this otherwise harmful development. There is also a growing trend in digital gaming (particularly mobile gaming) and visual media consumption. Hasbro has been making acquisition and partnerships within both industries by acquiring companies such as Backflip Studios and Boulder Media. With mobile games like Dragonvale and digital shows such as My Little Pony: Friendship is Magic, Hasbro is well positioned in these industries.

Investment Thesis

The investment thesis is split amongst six points. One: Hasbro is well positioned in an industry with a strong outlook. The toy and game industry is poised for consistent growth and the digital gaming and entertainment space is rapidly expanding. Two: Hasbro has strong brand storytelling that it franchises to successfully capitalize on such brands. Three: Hasbro has an industry leading entertainment and play brand portfolio that reaches a broad range of users. Four: Hasbro has an effective multiplatform brand strategy as outlined by its "Share of Life." Five: Hasbro has strong financial performance that allows it to reinvest in the company and shareholders (and make successful acquisitions). Six: Hasbro is currently undervalued due to noise from the Toys R Us bankruptcy and "The Amazon Effect."

Valuation Assumptions

WACC: 9.3%
Exit Multiple: 12x EV/EBITDA
Ave. 5 year Rev Growth Rate: 5.2%

Key Financials

ROA: 11.24%
ROE: 31.27%
ROIC: 17.39%
Net Income: \$566.1mm

Corporate Social Responsibility

Product Safety: Hasbro has not issued a product recall for nearly ten years.

Environmental Sustainability: Hasbro achieved 100% renewable energy use and carbon neutrality across their owned and operated facilities in the U.S. for the second straight year in 2016.

Human Rights and Ethical Sourcing: Hasbro provides employees and workers with channels to report human rights concerns anonymously.

Diversity and Inclusion: In 2016, 37% of Hasbro's leadership roles globally were held by women, a 23% increase compared to 2012.

Competitive Analysis

In the US, the traditional toy and game industry is moderately fragmented as the ownership of popular toy brands remains spread out despite the strong portfolios of the major industry players. According to the most recent Mintel data, Mattel Inc., Hasbro Inc., and LEGO Group control 31.4% of the market, while other important players Jakks Pacific Inc. and Namco Bandai Holdings sit at 2% and 1.1% respectively. In major European Markets such as the UK, France, and Spain, Hasbro ranks second in market share while also maintaining a top four position in Germany and Italy. Hasbro's major competitor in visual media among multifaceted entertainment companies is Mattel Playground Productions. This in-house film studio drives brand awareness and growth for Mattel by producing original content based on Mattel's brands; with the particular distinction of featuring live action productions such as Max Steel. Additionally, Mattel Playground Productions only produces Mattel specific content. Hasbro's Boulder, on the other hand, produces works independent of Hasbro's brands such as Foster's Home for Imaginary Friends and The Amazing World of Gumball; helping the company diversify its visual media entertainment and providing it with a subsidiary already relevant in modern media.

Competitive Advantages

Hasbro, competitive advantage lies in the strength of their entertainment brand portfolio. The portfolio is built around their multiplatform content strategy that places each brand at the center of everything the company does. They leverage the power of the brands by creating entertainment products across traditional toy, digital gaming and visual media platforms in way that allows sales on one platform to help drive the sales of another. Hasbro was the first toy company to implement such a strategy, while others are just starting to try a similar approach. They have a strong ability to create and acquire new brands from which to build new stories and products. In addition, Hasbro relationship with Disney and Marvel give it exclusive access to profit from the toys based on the feature films associated with those brands, which is one of the biggest current drivers of traditional toy sales.

Risks

Retail Customer Concentration: High Impact/Medium Probability: Hasbro sells the majority of its products to a small customer base.

Manufacturing Over-reliance in China: Medium Impact/Medium Probability: The company's reliance on third-party manufacturers in China exposes it to a number of macroeconomic risks, such as the potential deterioration of the trading relationship between China and the US and rising labor costs

Licensor Concentration: High Impact/Low Probability: A major portion of Hasbro's revenues from its Partnership Brands are derived from Disney's licensed products. Disney owns five of Hasbro's nine Partner Brands, which represents over 50% of Hasbro's Partner Brands portfolio.

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Sources: Bloomberg

