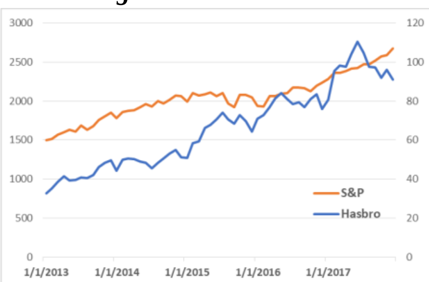
Hasbro Inc.

Date: 04/16/2018	**Current Price:** $88.26 (04/16/2018)	**Recommendation:** **BUY**
Ticker - NASDAQ: HAS	**Headquarters:** Pawtucket, RI	**Target Price:** $112.69 (27.7% Upside)

Figure 1 *– Share Price*



Source: Bloomberg

Figure 2 *– Valuation Weighting*

Base Case Valuation		
DCF	50%	$ 102.43
Comps	50%	$ 122.94
Price Per Share		**$ 112.69**
Margin of Safety @ 88.26		27.7%

Source: Company Data + Team Analysis

Figure 3 *– Company Metrics*

Company Metrics	
Market Cap.	$11.41B
P/E	19.18
Dividend Yield	2.49%
Dividend per Share	$0.57
FCF Yield	5.83%
ROIC	17.39%

Source: Bloomberg

Figure 4 *– Market Price Metrics*

Market Price Metrics	
Current Price	$ 88.26
52 Week High	$ 116.20
52 Week Low	$ 83.40
Beta	$ 1.18

Source: Bloomberg

Investment Highlights

We recommend a **BUY** rating for Hasbro Inc. based on a 1-year target price of $112.69 per share. Our target price offers a 27.7% margin of safety based on its closing price of $88.26 on April 16, 2018. The following factors are the main drivers of our investment recommendation:

Strong Industry Outlook & Positioning
The global Toy and Game industry is poised for consistent growth in both developed and emerging markets, and the Digital Gaming and Entertainment space is expanding rapidly. Hasbro's brand portfolio and strategy effectively places it at the center of this growth.

Brand Storytelling
Hasbro's strongest asset is their ability to tell stories that drive engagement and grow their brands. Its ability to leverage its ecosystem of products, content, and media to create emotional connections and drive engagement make it a standout.

Industry Leading Brand Portfolio
Hasbro possesses an industry leading entertainment and play brand portfolio especially suited to a broad range of users. Other industry players have struggled with, or have just began creating such a portfolio.

Effective Multi-Platform Brand Strategy
Hasbro's Brand Blueprint and "Share of Life" strategy has allowed it to expand the profitability and earning potential of its brand portfolio by leveraging film, television and digital gaming media in addition to traditional toys and games. This makes them adaptable to evolving consumer entertainment and play preferences.

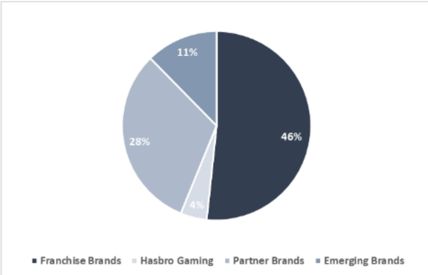
Strong Financial Performance
Hasbro's financial performance has been strong from profitability, top-line growth, liquidity and free cash flow perspectives. This financial strength should allow them to continue the creation and acquisition of additional brands, while maintaining greater performance compared to their peers over the next 5 years.

Current Undervaluation
Market noise from Toys R Us' bankruptcy filing and Amazon's threat to traditional retail has resulted in a recent dip in Hasbro's stock price which we believe is temporary and overstated, making today's market prices an attractive entry point for investment.

Business Description

Business Overview:
Hasbro, Inc. (Hasbro) is an American play and entertainment company founded in 1923. As the third largest toy maker in the world, Hasbro produced revenues of approximately $5 billion in 2016. The Company's operating segments include the U.S. and Canada, International, Entertainment and Licensing, and Global Operations. From toys and games to content development, including television programming, motion pictures, digital gaming and a consumer products licensing program, Hasbro fulfills the fundamental need for play and connection for children and families on a global scale. Hasbro recently realigned their business model into three operating segments: Franchise & Partner Brands, Hasbro Gaming Brands, and Emerging Brands, with the objective to mine one of the richest brand portfolios in the industry. Internationally,

Figure 5 *– Revenues by Category*

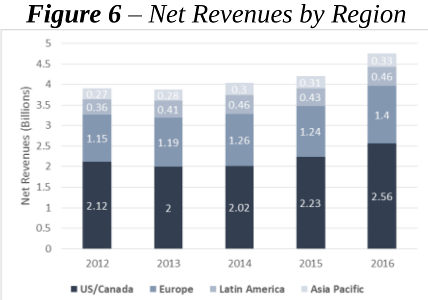


Source: Company Data

Hasbro markets and sells toys primarily in the European, Asia Pacific, and Latin and South American regions.

Franchise & Partner Brands
Hasbro has developed a multi-platform content strategy based on owned properties and partnered franchises. Currently, its seven owned franchise brands are *Littlest Pet Shop, Magic: the Gathering, Monopoly, My Little Pony, Nerf, Play-Doh, and Transformers.* These seven franchise brands grew 7% in 2016. In addition to the seven franchise brands, Hasbro has significant partner brands which include *Disney Princesses, Frozen, Star Wars, Spider Man, and Marvel*. Its franchise brand segment grew 2% and produced $2.3 billion in revenue in 2016, and over the last 10 years grew at a compound annual growth rate of 10% with an operating profit margin over 20%.

Figure 6 *– Net Revenues by Region*



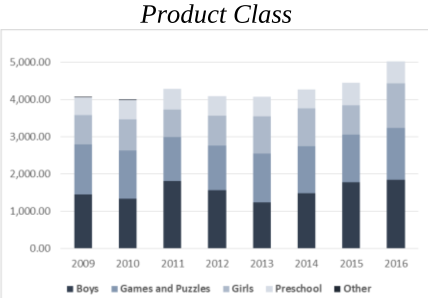
Source: Company Data

Hasbro Gaming Brands
Hasbro Gaming is a branch of operation focused on consumer insights to improve the face to face, trading card, and digital game experience. The core gaming brands include *Magic: The Gathering* and *Monopoly* as well as *Jenga, Connect 4, The Game of Life, Operation*, and *Trivial Pursuit.*

Emerging Brands
Hasbro defines their emerging brands as brands that are either owner or controlled by Hasbro but have not achieved Franchise Brand status, but have potential to gain that momentum with time and investment. These emerging brands include *Baby Alive, Playskool, G.I Joe, Furby,* and *FurReal* along with any new brand initiatives.

Strategy
Brand Blueprint & Story-led Brands
Hasbro uses a brand blueprint built on storytelling and entertainment initiatives to strengthen their position as a worldwide leader in family leisure and entertainment products and services. The company focuses on reinforcing storylines associated with their brands through multi-platform outlets such as television, motion pictures and digital gaming. With regards to storytelling and entertainment initiatives, Hasbro utilizes *Hasbro Studios LLC, Discovery Family Channel, Boulder Media, Allspark Pictures, and Backflip Studios* as resources to innovate their brands and storylines. Theatrical releases for their Partner Brands strengthen Hasbro's product sales and drive growth by offering immersive entertainment experiences. Hasbro recognizes the importance of storytelling as a way to reach audiences globally and to attract customers. <u>Content and storytelling are ultimately the drivers of revenue for Hasbro.</u>

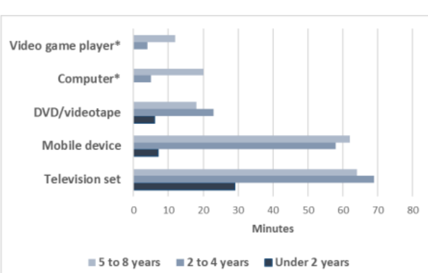
Figure 7 *– Net Revenue by Principal Product Class*



Source: Company Data

Expanding Share of Life
Hasbro is focused on reaching consumers in a broader range of demographics, geographies, and psychographics. In order to increase its audience, Hasbro is pushing to extend its brands into a variety of platforms, such as digital shorts, television, film, consumer products, and location-based entertainment. Also, Hasbro is investing in an omni-channel retail strategy, which is strategically exposing Hasbro's products to a number of retail channels. Through a strategic partnership with 27 retailers Hasbro has gained access to nearly 125,000 retail locations globally.

Figure 8 *– Time Spent with Selected Media Devices among U.S. Children 2017*

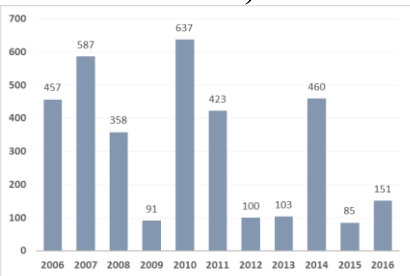


Source: Common Sense Media

Consumer Insights
Through the Global Consumer Insights (GCI) team, Hasbro strives to understand consumers and their changing preferences. The GCI team employs three strategies to obtain this information.

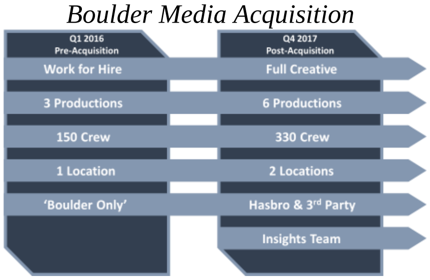
1. <u>Hasbro Insight Hunters</u> - Hasbro Insight Hunters conduct extensive secondary research analyses including consumer and market opportunities as well as trend tracking. Making an effort to understand consumers and market trends allows Hasbro to make informed business decisions around their brand blueprint.
2. <u>Consumer Studies</u> - The Consumer Insights team conducts multi-country longitudinal studies, observational research, as well as online communities where a program interacts with consumers and obtains feedback from consumers around the world.
3. <u>Hasbro Fun Labs</u> - Hasbro also operates FunLabs where consumers can test their toys and games. This allows Hasbro to develop better play experiences for children and adults globally.

***Figure 9** – Share Repurchase ($ Millions)*



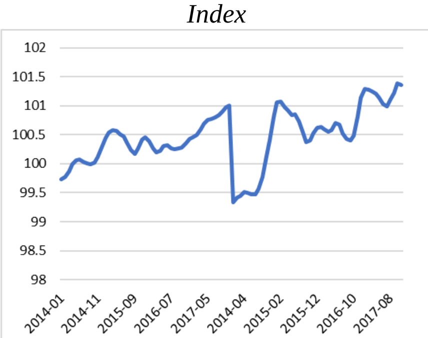
Source: Company Data

***Figure 10** – Capabilities Gained From Boulder Media Acquisition*



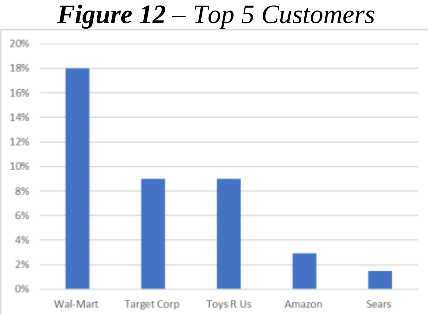
Source: Company Data

***Figure 11** – Consumer Confidence Index*



Source: OECD

***Figure 12** – Top 5 Customers*



Source: Bloomberg

Returning Excess Cash to Shareholders

Over the last five years Hasbro has generated an average free cash flow of $416.64MM peaking in 2016 at $619.97MM. This consistent cash flow generation has allowed Hasbro to deliver a dividend for the past 10 years. Such a consistent dividend history suggests Hasbro is very established in its market and that its dividend distribution is likely to continue for a significant period. Additionally, Hasbro has a strong history of delivering increased value for shareholders in the form of stock buybacks. Please see the financial analysis for additional information.

Strategic Acquisitions

Hasbro has a long history of acquiring companies, brands, and capabilities to enhance its brand portfolio. Although Hasbro has been very successful in grooming in house brands like *My Little Pony* and *Littlest Pet Shop*, Hasbro recognizes the need to diversify offerings. For example, in 1984 Hasbro acquired Milton Bradley and Playskool and in 1994 it acquired Wizard of the Coast to expand into new market segments. Most recently, Hasbro has been acquiring companies that help bolster their digital initiatives and contribute to their ability to tell stories.

Industry Overview and Competitive Positioning: Toy & Game

Traditional Toy & Game

Overall economic health, growth, and consumer spending levels influence the toy and game industry's performance significantly.

According to NPD Group the Toy and Game industry has shown a promising 4.8% average growth rate in 2013 through 2016. During the first half of 2017, the Group reported 3% retail sales growth for the industry as a whole, 40% of which was driven by impressive 24% growth in the games and puzzles category within which adult games grew a staggering 267%. Such a trend represents an ongoing effort among industry players like Hasbro to expand board game and toy offerings aimed at older demographics. In 2016 the US was the strongest performing market with 30% market share of the roughly $90+ billion global market.

Toy & Game Headlines

Headlines in recent months have highlighted a major issue facing the toy and game industry: major toy retailer Toys R Us filed for chapter 11 bankruptcy. According to Jefferies, the retailer accounts for 11%, 9% and 15% of 2016 global sales for three largest industry players Mattel, Hasbro and Jakks Pacific respectively, and thus the bankruptcy is likely to have a negative impact on major toy company sales. As a result of the bankruptcy Hasbro lowered Q4 earnings guidance to a 4% - 7% gain which CEO Brian Goldner stated in the company's Q3 earnings call. It was also noted in the call that they have worked closely with the retailer in putting together a plan to manage receivables through the holiday season, and remain confident that their distribution strategy will allow them to minimize adverse effects to earnings. Nevertheless, the bankruptcy is another example of the challenging environment facing traditional brick and mortar retailers. However, there is reason to believe such sentiments are overblown. While retail is sure to undergo plenty of changes in the next decade, in the case of the toy category, brick and mortar retail will continue to be important because toys are products that benefit from being showcased in retail stores where parents can bring their children to try out.

With this said, Hasbro has positioned themselves well with Walmart and Target to compensate for the potential losses from Toys R Us. According to the Minneapolis Fed, the median distance to a Walmart and Target store in the United States is 4.2 and 5.0 miles respectively. In areas around the county with less than 5,000 people within a five-mile radius that distance grows to 14.3 and 34.8 miles. Although there may be short term pains from Toys R Us closures, Hasbro can leverage its relationships with Target and Walmart to ensure long term retail success.

Screen Time Concerns

Smartphone and tablet screen time taking on a growing share of children's play time is another common narrative surrounding the toy industry. Some market participants have concerns that the longer a child spends on their tablet, the less time they will dedicate to traditional toys, leading to struggling sales. Estimates from Common Sense Media and Northeastern University state that children ages 8 and under spend an average of 48 minutes a day using mobile technology, up from 24 in 2012, representing 35% of daily screen time. While television retained the top share of screen time in 2017 at 42%, the rise in mobile device usage among this demographic is accompanied by a drop in daily minutes spent watching television (106 to 58 minutes). These numbers indicate that increased mobile screen time is coming at the expense of television time, not traditional toy time. Figure 12 shows that traditional toy sales have continued to grow despite the sharp increase in smartphone sales globally. Other NPD group numbers also suggest either flat or growing sales of the majority traditional toy categories across the US industry, evidenced also in the overall US industry growth.

The narrative is also countered by parents' attitudes and behaviors surrounding these screens. A 2017 Common Sense Media study showed that 76% of US parents at least "somewhat agree" that the less time kids spend with screen media, the better off they are. An Entertainment Software Association survey also indicates that 75% of US parents placed limits on video game playing time in 2017. Such data shows that many parents continue to favor traditional toy play over digital screen and manage their children's time accordingly. Interestingly, another CSM survey indicated that among 0-8 aged children in higher income level families, who can most easily afford the screen technology, spend 99 fewer minutes in front of them as opposed to their lower income counterparts; a positive sign for the continued relevance of traditional toy categories. Regardless of how parents decide to manage their children's screen time, Hasbro's multiplatform brand strategy has the advantage of providing content to children on both their mobile screens and in their toy bin.

Toy and Game Industry Competitors

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.

Digital Gaming Overview

The digital gaming industry is best categorized by its rapid growth. The global games market has grown by 7.8% in 2017, reaching revenues of $108.9 billion up from $101.1 billion in 2016. NewZoo, the leading provider of market intelligence covering the global games, eSports, and mobile markets, predicts this market will reach revenues of roughly $128.5 billion by 2020. The digital gaming industry can be segmented into three primary categories: Mobile Gaming (making up 42% of the market), PC Gaming (making up 27% of the market), and Console Gaming (making up 31% of the market). Of the three, Mobile Gaming is the fastest growing segment with a year-over-year revenue growth of 19%. This is significant for Hasbro as it has recently acquired Backflip Studios, so it is well positioned to take advantage of this explosive growth by both reaping the projected revenues and exposing its brands/franchises to an expanding and increasingly popular medium. The Group has successfully done this with titles such as *Transformers: Earth Wars*, *GI Joe: Strike*, and *Nerf Hoops*.

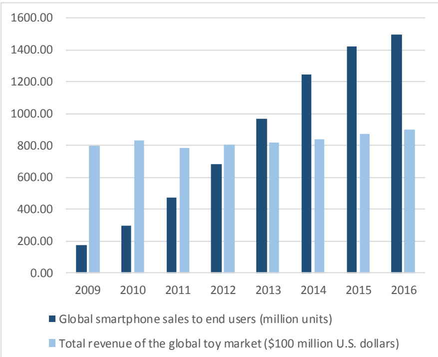
Visual Media Overview

Movies, traditional television, and online media are vital for the successful reinforcement of Hasbro's brands and franchises by increasing the awareness of these brands and expanding the mediums via which they are presented. The movie and video production industry is one that can be categorized by steady growth and increasing disruption. According to PWC, global box office revenues are projected to reach $46 billion by 2021, which represents 24% growth since 2016 while revenues of the television industry are predicted to rise at an annualized rate of approximately 4.8%. The area of growth that is most promising however comes from SVOD (Subscription Video on Demand), which Statista projects to grow 87% by 2021, resulting in over 364 million subscribers across various streaming platforms. This data validates Hasbro's strategy to partner with major SVOD providers like Netflix and Amazon Prime to distribute content.

Visual Media & Gaming Partnerships

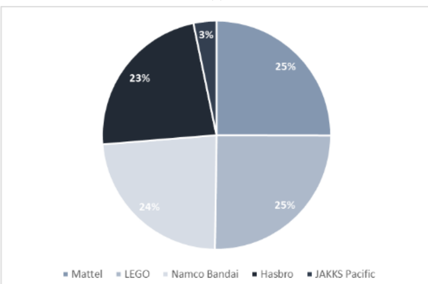
Besides using subsidiaries such as Backflip Studios and Boulder Media to create original content in-house, Hasbro employs several partnerships that bring its brands into the digital gaming and media space. For instance, the company has partnered with Electronic Arts to create *Monopoly*, a digital game that simulates the popular Hasbro board game of the same name on PC and mobile

***Figure 13 -** Global smartphone sales to end users vs. Total global toy industry revenue.*



Source: NPD Group & Gartner

***Figure 14** – Toy Companies 2016 Revenue Worldwide*

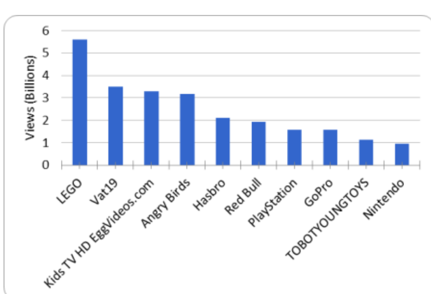


Source: LEGO; Mattel; JAKKS Pacific; Namco Bandai Holdings

***Figure 15** – SVOD Worldwide Subscriber Growth*

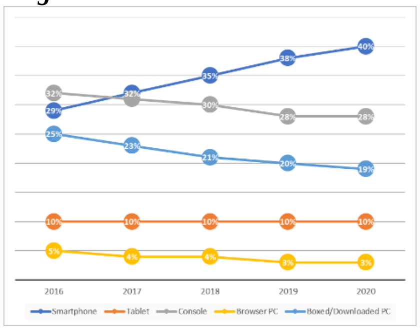
Source: Statista

***Figure 16** – Youtube Most Popular Brand Channels 2017*



Source: Social Bikers, YouTube

Figure 17 – 2016-2020 Global Games

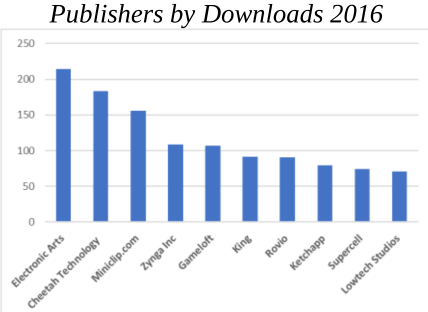


Source: NewZoo

Figure 18 *– Digital Game Spend by Region 2017*

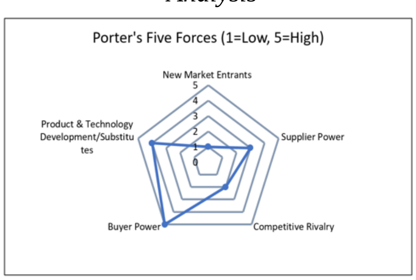
Source: NewZoo

Figure 19 *- Top 10 Mobile Game Publishers by Downloads 2016*



Source: NewZoo

Figure 20 *- Porter's Five Forces Analysis*



Source: Team Analysis

platforms. Hasbro also partners with popular developers to combine brands. This is the case with Rovio's *Angry Birds: Transformers*, a mobile cross-brand title that combines Rovio's *Angry Birds* with Hasbro's *Transformers*. Similarly, Hasbro partners with television/movie producers such as DHX Media and Darby Pop Productions to create television shows such as *My Little Pony: Friendship is Magic* and *Transformers Prime* as well as web animations such as *Transformers: Combiner Wars*. These partnerships allow Hasbro to take its industry-leading brands and collaborate with industry-leading developers to create competitive products outside its organic product mix.

Additionally, Figure 19 displays a chart of competitors in the mobile space and represents Hasbro's prominence in the digital gaming industry via partnerships. Of the ten listed companies, Hasbro has partnered or done business with five. Both EA and Gameloft have produced games with Hasbro's brands, Hasbro and Zynga partnered up to make toys and board games based on Zynga's mobile games, Hasbro and Rovio have partnered to make cross-brand games such as *Angry Birds: Transformers*, and Space Ape Games (62% owned by Supercell) developed *Transformers: Earth Wars* for mobile devices.

Visual Media Competition

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.

Digital Gaming Competition

Other than Backflip Studios, Hasbro does not actually own any digital gaming developers/publishers. It instead out-licenses its brands to well-known developers such as Electronic Arts and Activision Blizzard. Therefore, while these companies are considered competitors, they are also often partners and so operate in a gray space in respect to Hasbro.

Three companies comparable to Backflip Studios in the mobile gaming industry are Gameloft, King Digital Entertainment, and Rovio Entertainment. Of these three, King is the most comparable as it too is a subsidiary of a much larger entertainment entity: Activision Blizzard. King allows Activision Blizzard to strengthen its existing brands while enjoying the revenues generated from the subsidiary's existing hit titles such as the *Candy Crush Saga*. This franchising strategy represents the type of synergies Hasbro is creating by incorporating its brands into mobile games via Backflip Studios. Activision Blizzard is also known for creating "companion apps" (applications that can be used alongside their existing games); a strategy Hasbro has employed with *FurReal Friends GoGo* in order to synergize physical toys with the digital and mobile segments. Both Gameloft and Rovio exemplify a freemium strategy of mobile gaming (essentially selling games for free while making money off in-game micro transactions). This is something Hasbro is moving towards as well, which could prove lucrative if it is met with the same success of Rovio's *Angry Birds* franchise and Gameloft's *Modern Combat* series.

Investment Summary

We recommend a **BUY** rating for Hasbro Inc. based on a 1-year target price of $112.69 per share. Our target price offers a 27.7% margin of safety based on its closing price of $88.26 on April 16, 2018. The following factors are the main drivers of our investment recommendation:

Industry Leading Brand Portfolio

Hasbro's portfolio offers customers a number of iconic brands such as *Monopoly*, *Transformers*, Nerf, and *My Little Pony*. Besides in-house brands, Hasbro also represents the world's most popular franchises such as *Star Wars*, *Disney Princesses, and Marvel* through strategic partnerships. Hasbro drives growth by developing and nurturing its brands through storytelling in the form of film, live-action shorts, and videos; which complement its brands by creating the emotional appeal that attracts consumers from a number of demographics. Their portfolio's popularity is validated by the fact that in the first half of 2017 it owned 9 of the top 10 face-to-face games and owned the number one selling toy and game on the Amazon store.

Brand Storytelling

Hasbro's strongest asset is their ability to tell stories that drive engagement and grow their brands. Hasbro's *My Little Pony* is an example of their efforts to "Ponify" the world. It utilized traditional television broadcasts in 190+ markets through digital viewership online, global book publishing, and a global theatrical release of *My Little Pony: The Movie* to achieve over 250% in revenue growth over the last six years. Continuing to leverage this ecosystem of products, content, and media will help drive brand engagement in the future.

Investing in the Future

Hasbro's successful investments in growing technologies make it a standout among its peers.

- **Digital Gaming:** The acquisition of Backflip Studios coupled with partnerships with major gaming partners like Tencent, Ubisoft, etc. has given Hasbro the capacity to swiftly tap into the rapidly expanding $109 billion dollar digital games market. Hasbro's strong pipeline of future games such as *Magic the Gathering: Arena* gives it great exposure into this thriving segment.
- **Streaming Services:** Hasbro has recognized the future of video content no longer lies solely in traditional TV subscriptions. According to Statista, SVOD, or subscription video on demand, is projected to grow 86% by 2021. This makes Hasbro's partnerships with Netflix, Amazon Prime, and other SVOD's extremely valuable and positions it to take advantage of future growth opportunities. The content then over time promotes commerce and further supports Hasbro's Omni-Channel Ecosystem.
- **Immersive Brand Experiences:** Hasbro is a leader in introducing new brand experiences for their customers. For instance, Hasbro's *Nerf Lazer Tag* iOS augmented reality game, HasCon (Hasbro's own convention), theatrical shows, immersive theme park rides, and virtual reality content are all new entertainment mediums for its customers. These experiences keep consumers of all ages and demographics excited about their favorite brands from a new perspective that drives revenues across the brand blueprint.
- **E-Commerce:** Hasbro currently does 15% of its sales via ecommerce and has partnered with Amazon, Alibaba, and others to ensure a diversified shopping experience for its customers.

Brand Reinforcement and Engagement

Social media is a powerful tool in today's marketplace. It provides companies the opportunity to interact with their customers. Hasbro has been able to take advantage of that tool and has amassed over 75 million subscribers across all its social media platforms. Most notably, it has over 2 billion views on YouTube, 3.6 million followers on Facebook, and 110K followers on Instagram. Compared to competitors like Mattel, Hasbro is overwhelmingly stronger at reinforcing its stories and engaging with its customers.

Dividend Yield

Hasbro has produced a consistent dividend over the last ten years and offers a 2.4% dividend yield at a price of $88.26. This is by far the best yield among its competitors. Overall, its strong financial performance and ability to generate free cash flow will allow it to continue to return cash back to shareholders.

Financial Analysis

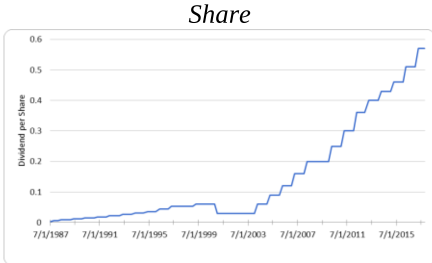
Balance Sheet and Financing:

Total assets have increased from $630.4MM to $1,282.3MM from 2008 to 2016. Inventories and accounts & notes receivable also increased during that period. Liquidity has remained fairly stable over the last five years with 2016 experiencing a slight downtick compared to recent years. Shareholder equity has been rising since 2011 with the exception of 2014. In 2014, Hasbro repurchased $460 million back in stock resulting in the decreased shareholder equity figure. Hasbro's leverage profile has been consistent with their debt to equity ratio, varying between 0.81 and 1.2. Long term debt to equity has seen slightly larger swings mainly due to their acquisitive nature. We expect the ratios to remain fairly stable due to their consistent operating history with slight swings due to acquisitions along the way. Hasbro has made all cash deals, but does use debt for larger acquisitions. We could foresee the acquisition of a company like Mattel resulting in additional debt to finance the acquisition plus Mattel's additional liabilities. Overall, their balance

***Figure 21** – Hasbro Omni-Channel Strategy*

Source: Company Data

***Figure 22** – Hasbro Dividend Per Share*



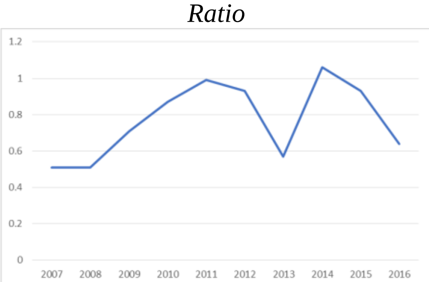
Source: Company Data

***Figure 23** – Hasbro Credit Ratings*

Agency	Rating
Moody's	Baa1
Outlook	Stable
S&P	BBB
Outlook	Stable
Fitch Ratings	BBB+
Outlook	Stable

Source: Bloomberg

***Figure 24** – Hasbro Debt to Equity Ratio*



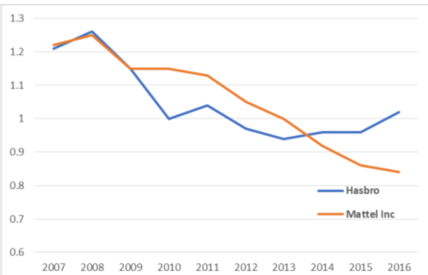
Source: Company Data

Figure 25 - *Profitability Metrics*

Profitability TTM	
Tax Rate %	19.93
Net Margin %	11.34
Asset Turnover	1
Return on Assets %	11.33
Debt to Equity	2.83
Return on Equity %	32.16
Return on Invested Capital %	18.03
Interest Coverage	8.36

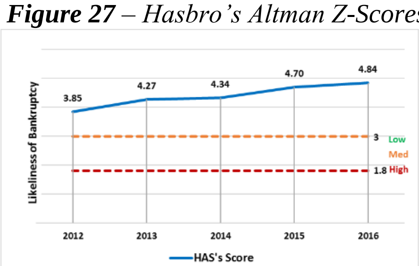
Source: Company Data

Figure 26 - *Hasbro vs. Mattel Asset Turnover*



Source: Company Data

Figure 27 – *Hasbro's Altman Z-Scores*



Source: Team Analysis

Figure 28 - *Hasbro Valuation Scenarios*

Base Case Valuation		
DCF	50%	$ 102.4
Comps	50%	$ 122.9
Price Per Share		**$ 112.7**
Margin of Safety @ 88.26		27.7%
Upside Case Valuation		
DCF	50%	$ 112.4
Comps	50%	$ 122.9
Price Per Share		**$ 117.7**
Margin of Safety @ 88.26		33.3%
Downside Case Valuation		
DCF	50%	$ 82.30
Comps	50%	$ 122.9
Price Per Share		**$ 102.6**
Margin of Safety @ 88.26		16.2%

Source: Team Analysis

sheet is well equipped for both organic and inorganic growth moving forward.

Earnings and Profitability:

Earnings increased from $336.0MM to $551.4MM from 2012 to 2016. However, in 2013 EBIT took a dip, due to restructuring and pension related costs, product related expenses, and a previously disclosed legal settlement. In other years, EBIT increased: 36% in 2014, 8.9% in 2015, and 13.9% in 2016. Net profit margin and Return on Equity (ROE) have moved in tandem with EBIT both peaking in 2016. As Hasbro continues to grow their industry leading capabilities, we believe *Hasbro can continue to see top and bottom line growth across all their operating segments.* Hasbro has been able to expand margins across their portfolio every year since 2013, and have built stronger capabilities in the higher margin areas such as Hasbro Gaming and Franchise Brands. It should also be noted that the final phase of their systems investments is being implemented, which will result in cost savings in the years to come. However, the market Hasbro operates in is a very consumer driven environment and changes in preferences and market conditions could result in weaker earnings results.

Cash Flows and Shareholder Return

Over the last four years Hasbro's cash has been growing rapidly, nearly doubling in that period. They have consistently paid out a dividend and have increased their payout in 13 of the last 14 years. Hasbro's dividend compound annual growth rate (CAGR) is healthy at 14%. Additionally, they have been diligent in returning cash to shareholders through their share repurchase program. Over the last ten years they have repurchased over $3.5 billion in stock and plan on repurchasing over $150 million worth of stock in 2017. This is a reflection of their strong cash flows, balance sheet holding $1.2 billion in cash, and effectively using dividend and buyback program to return capital to shareholders. Acquisitions for Hasbro have been financed through a mix of cash and debt deals. Free cash flow has been cyclical, but has been consistently growing over the last four years and reached an all-time high in 2016.

Turnover

Both total and fixed asset turnover have been trending slightly upwards over the last four years, and have remained fairly stable in the past. We expect this trend to remain and take additional stock in the last three years of performance as it represents the culmination of Hasbro's Brand Blueprint. Finally, accounts receivable and inventory turnover remains stable despite turbulence within brick and mortar retail.

Altman Z – Score Analysis

As part of our financial analysis, we conducted an Altman Z-Score Analysis in order to strengthen our knowledge of Hasbro's financial health. The analysis is a credit-strength test that measures a public company's likelihood of bankruptcy. The formula is (1.2*A) + (1.4*B) + (3.3*C) + (0.6*D) + (1.0*E). The test takes into account five financial ratios relating to liquidity, leverage, profitability, solvency, and activity. A score of 1.8 or below reflects that a company has high probability for bankruptcy. Scores of 3 and above indicate that a company is not likely to go bankrupt. We obtained an average score of 4.4 for the 2012-2016 fiscal years, which supports our observation that Hasbro has strong financial health.

Valuation

Our target price for Hasbro Inc. is $112.7 using two valuation methodologies, a discounted cash flow (DCF) analysis and a comparable company multiples analysis. This price provides a 27.7% margin of safety to Hasbro's current valuation as of close 4/16/18. We weighted the DCF and the comparable company multiples analysis equally because we feel strongly that a realistic valuation of HAS must equally consider the upside stemming from its strong projected cash flows, as well as its undervaluation in the context of the market.

Discounted Cash Flow Valuation

Methodology and Forecasts

The DCF model was created using industry standard methodology, beginning with an analysis of four years of historical data to determine historical trends in sales growth, gross margin, as well as operating expense, capital expenditure, D&A, tax and working capital levels. As 2017 results were

Figure 29 – Perpetuity Growth Rate

Implied Perpetuity Growth Rate	
2022E FCF	$853.2
WACC	9.3%
Terminal Value	$16,935.4
Implied Perpetuity Rate	**3.80%**

Source: Team Analysis

Figure 30 *- Hasbro Weighted Average Cost of Capital*

WACC Calculation	
Market Cap	85.8%
Total Debt	14.2%
Cost of Debt	
Cost of Debt	3.9%
Tax Rate	24.0%
After-tax	**3.0%**
Cost of Equity	
Risk-free Rate	2.5%
Market Risk Premium	5.8%
Levered Beta	1.35
Cost of Equity	**10.3%**
WACC	**9.3%**

Source: Team Analysis

Figure 31 *- Enterprise Value*

Enterprise Value Calculation (Base)	
Cumulative PV of FCF	**$2,794.7**
2022E EBITDA	$1,411.3
Exit Multiple	12.0x
Terminal Value	**$16,935.4**
Discount Factor	0.642
PV of Terminal Value	**$10,871.6**
% of Enterprise Value	79.6%
Enterprise Value	**$ 13,666.3**

Source: Team Analysis

Figure 32 *– EV/EBITDA Multiple*

Implied EV/EBITDA	
Enterprise Value	$13,666.3
LTM EBITDA	936.6
Implied EV/EBITDA	**14.6X**

Source: Team Analysis

Figure 33 *– Upside/Downside Assumptions*

Upside/Downside Analysis ($ millions)	Base	Upside	Downside
Sales CAGR	5.2%	6.3%	4.1%
Gross Profit CAGR	5.7%	7.1%	4.2%
2022E % Margin	62.0%	63.0%	61.0%
EBITDA CAGR	6.5%	8.4%	2.4%
2022E % Margin	20.5%	21.2%	17.7%
2022E Free Cash Flow	$853	$952	$673
Implied EV/LTM EBITDA	14.6x	15.9x	11.9x
Implied Perpetuity Rate	3.8%	3.7%	4.0%

Source: Team Analysis

only available through Q3, the 2017 numbers used in the model were calculated using consensus analyst estimates for Q4 from Bloomberg. Cash flows were discounted using the mid-year convention. In the calculation of the implied share price of the model, the LTM Diluted Weighted Average Shares count sourced from Bloomberg was employed.

Net Working Capital Projections

In order to improve the accuracy of our free cash flow forecasts, we rigorously projected net working capital through our five-year forecast period. In 2017, for the sake of consistency, working capital levels were assumed to be the same as in 2016, growing with revenue. The exception is Days Sales Outstanding (DSO), which we projected to be higher in 2017 because of the difficulties surrounding Toys R Us receivable accounts. We project these elevated levels to persist through 2018 before normalizing to the historical average. Days Inventory Held (DIH), like DSO and Days Payable Outstanding depend largely on timing and are expected to be slightly higher than 2017 but remain near historical averages.

Weighted Average Cost of Capital

The weighted cost of capital used in the model was calculated using a market value based on the weight of Hasbro's capital structure. Per the McKinsey & Co Valuation Manual, the yield to maturity of Hasbro's most liquid (and thus most accurately priced) long-term outstanding debt issue was used to calculate the pre-tax cost of debt. This rate reflects our belief that while interest rates are expected to rise though 2018, a combination of stable inflation and slow wage growth will cause the inexpensive debt environment to persist for the next few years. We believe this rate accurately reflects the cost of debt for a company with its credit rating (BBB) and the low debt levels it has historically employed. The cost of equity was calculated using the Capital Asset Pricing Model using a beta calculated from a peer set of unlevered betas. We then re-levered it using the company's book value based capital structure which we expect to remain consistent throughout the projection period. The risk free rate used is the yield on the 10-year US Treasury note. The resulting WACC is conservative due to the ability of the company to take on higher debt levels should conditions require, and the much higher portion of debt in the book value based capital structure.

Terminal Value

We employed the exit multiple method in calculating the terminal value for Hasbro. Using this method allows us to express our belief that Hasbro will maintain the solid financial performance it has produced over the past three years. As such, we have used an exit multiple equal to the firm's current EV/EBITDA multiple of 12x. Such a multiple implies a 3.80% perpetuity growth rate, which may appear optimistic, but we believe to be justified. We believe the current global economic climate should bolster consumer-spending growth even beyond the 5-year projection period. In addition to this, as global population grows, economies develop, and digital entertainment and gaming take on a bigger share of Hasbro's business we can expect them to continue to grow at a slightly faster pace than current global GDP growth. The implied perpetuity growth rate was influenced by our choice of a conservative WACC estimate (see Figure 25). The valuation resulting from the 12.0X exit multiple implies a 14.6x multiple to Hasbro's LTM EBITDA, just under 4 times below the median for the industry peer set used in the comparables analysis.

Upside/Downside Analysis

Our DCF analysis includes valuations based on three detailed operating scenarios: base, upside and downside, derived from our qualitative estimations of the company's operating environment over the projection period (see Figure 33).

The base case represents the direction in which we believe the company's performance will take and forms the basis of our target price. In this scenario, we see strong top-line sales growth of 7% and 6% in 2018 and 2019 respectively driven primarily by a strong lineup of entertainment releases under the Marvel and Star Wars brands and the continued realization of synergies and improved performance among Hasbro's recently acquired digital gaming subsidiaries, notably Backflip Studios. The continued strength of the puzzle and games category, as well as solid international growth across traditional game categories is also expected to contribute to growth in excess of the industry average. Gross margin is expected to improve at a slightly faster rate

.

Figure 34 – Sensitivity Analysis

Implied Perpetuity Growth Rate (Base)						
		Exit Multiple				
		11.0x	11.5x	12.0x	12.5x	13.0x
WACC	10.3%	4.3%	4.5%	4.7%	4.9%	5.1%
	9.8%	3.8%	4.0%	4.3%	4.5%	4.7%
	9.3%	3.3%	3.6%	**3.8%**	4.0%	4.2%
	8.8%	2.9%	3.1%	3.3%	3.5%	3.7%
	8.3%	2.4%	2.7%	2.9%	3.1%	3.3%

DCF Implied Share Price (Base)						
		Exit Multiple				
		11.0x	11.5x	12.0x	12.5x	13.0x
WACC	10.3%	91.30	94.71	98.11	101.51	104.91
	9.8%	93.28	96.76	100.24	103.72	107.20
	9.3%	95.31	98.87	**$102.43**	105.99	109.55
	8.8%	97.39	101.03	104.67	108.32	111.96
	8.3%	99.52	103.25	106.98	110.71	114.44

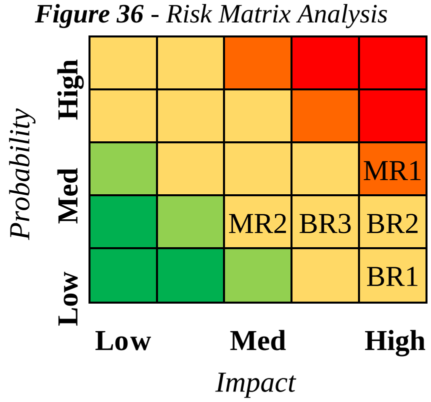
Source: Team Analysis

Figure 35 – Peer Set

Name	EV/EBITDA	Forward P/E
HASBRO INC	12.09	17.57
MATTEL INC	16.30	38.28
JAKKS PACIFIC INC	310.73	21.19
RASTAR GROUP	-	14.45
TOMY COMPANY LTD	8.24	17.81
BANDAI NAMCO HOLDINGS INC	7.47	15.63
SPIN MASTER CORP	18.25	22.84
ROVIO ENTERTAINMENT OY	-	19.47
ACTIVISION BLIZZARD INC	19.63	27.55
ZYNGA INC - CL A	98.56	27.85
NINTENDO CO LTD	67.07	31.04
Mean	**62.04**	**23.06**
Median	**18.25**	**21.19**

Source: Team Analysis

Figure 36 - Risk Matrix Analysis



Source: Team Analysis

Figure 37 – Hasbro 3rd Party Factories

Country	Factories
China	53
India	7
Japan	2
Ireland	2
United States	4
Vietnam	5
Israel	1
Indonesia	1
Brazil	1

Source: Company Data

relative to sales by virtue of the expected increase in the revenue share of higher margin digital entertainment and licensing offerings over the next five years. As a result, the company is projected to also see EBITDA growth in excess of top line sales rates. In 2018, we expect a small blip in EBITDA margin as Toys R Us related headwinds and increased advertising spending due to the entertainment release lineup drive up operating expenses.

<u>The upside case</u> represents the scenario where the results of the aforementioned near term revenue drivers exceed expectations, before stabilizing to a more sustainable 4.5% rate by the end of the projection period, .5% in excess of the conservative base case estimate. This scenario also prices a more optimistic cost-cutting success in operating expenses and sees faster margin expansion resulting from digital gaming success.

<u>The downside case</u> prices the scenario in which our thesis regarding the company's ability to successfully manage the near term Toys R Us headwinds and the medium to long term concerns regarding brick-and mortar retail and mobile device screen time is proven false. In this scenario the company will see increasing operating expenses resulting from unsuccessful efforts to spur growth in excess of the projected industry average of approximately 4%, and will see EBITDA growing at roughly half this amount. Each scenario was constructed using conservative projections in comparison to historical rates from '14 through '17.

Comparable Company Multiples Valuation

Our comparable company peer set was constructed using mainly traditional toy manufacturing and distributing companies. Hasbro "truest" competitor in terms of business model is Mattel Inc. In absence of other public firms closely matching this model, we also included a range of businesses within the digital entertainment and gaming space. Relative to this peer set, Hasbro is undervalued on both an EV/EBITDA and P/E basis. Median EV/EBITDA ratios were used in the analysis as the mean was heavily skewed by a distressed Jakks Pacific's ratio of 310.7x. We included this valuation method to price in the fact that that relative to its peers, many of which are struggling to find growth, Hasbro is trading at very modest multiples. The industry multiples indicate that the market is optimistic about the potential for recovery among the struggling firms, but not adequately valuing Hasbro's consistent strong performance and growth prospects.

Investment Risks

Market Risks

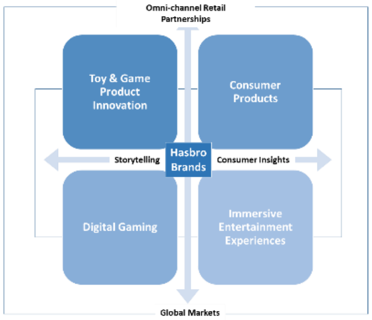
[MR1] *Retail Customer Concentration: High Impact/Medium Probability*
Hasbro sells the majority of its products to a small customer base. During fiscal year 2016, Hasbro's top five customers accounted for over 40% of its consolidated total net revenues. Hasbro's three major customers - Wal-Mart Stores, Inc., Toys R Us, Inc., and Target Corporation - accounted for 18%, 9%, and 9% of consolidated total net revenues respectively. Moreover, these top three customers accounted for over 60% of Hasbro's net revenues in its U.S. and Canada segment. Given the limited customer base, if one or more of Hasbro's core customers were to go out of business, Hasbro's revenues and margins could be negatively impacted. Please refer to Toy & Game headlines on page 3 for more info on the Toys R Us bankruptcy.

This has been mitigated by increasing its relationships with e-commerce customers such as Amazon, which is one of their top five customers. Hasbro has also been working with e-commerce sites Argos and Bol.com in Europe. In addition, a number of Hasbro's gaming products are evolving into digital form, which should call for more digital retail customers.

[MR2] *Manufacturing Over-reliance in China: Medium Impact/Medium Probability*
In 2015, Hasbro sold the last of its manufacturing facilities and since then the company has been utilizing third-party facilities for production. 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.

These risks are mitigated by Hasbro's move away from manufacturing and towards outsourcing providing the company with flexibility regarding the geographic location of its products' manufacturing.

Figure 38 – *Hasbro Brand Blueprint*

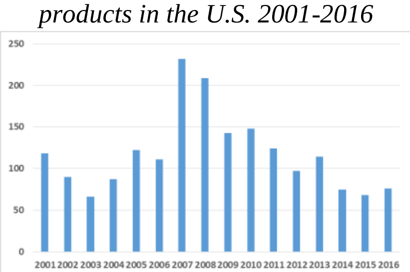


Source: Company Data

Figure 39 – *Mattel Brands*

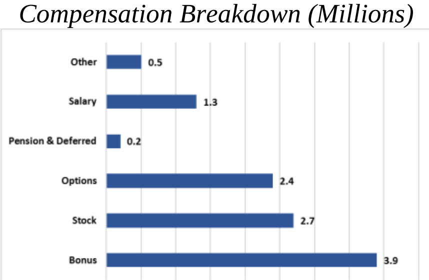
Source: Mattel Company Data

Figure 40 - *Total recalls of children's products in the U.S. 2001-2016*



Source: CPSC

Figure 41 – *2016 Hasbro CEO Compensation Breakdown (Millions)*



Source: Bloomberg

Business and Operational Risks

[BR1] *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. The substantial dependence on Disney's brands have made Disney's theatrical success significant for Hasbro given that consumer demand in the industry is influenced by major events in media, such as movies. For example, during fiscal years 2015 and 2016, demand for Hasbro's licensed Disney brand products increased significantly following the release of several popular movies from Disney's Marvel and Star Wars series. If Disney were to terminate its relationship with Hasbro or lose its strong market differentiation, or Hasbro Partner Brand's revenues and margins could be negatively impacted.

This is mitigated by the number of well-known franchise brands the company continues to develop. Although partnership brand revenues are important to maintain, the company's franchise brands continue to account for a large portion of total revenues.

[BR3] *Valuation Risk: High Impact/Low Probability*

Our current valuation indicates Hasbro is a **BUY** with a five year price target of $112.70. However, there remains a lot of uncertainty regarding Hasbro's potential acquisition of its most comparable competitor, Mattel. We believe that although our valuation does not factor this acquisition, acquiring Mattel only strengthens our recommendation by receiving a portfolio of new brands. If this deal does not go through our original valuation stands strong. In the interim this is an important area of watch and can provide greater upside to Hasbro's valuation.

Corporate Governance

Hasbro sets a high standard when it comes to corporate governance and their successful strategies and implementations. The Board of Directors is guided by Hasbro's Corporate Governance Principles, and they maintain a formal Nominating, Compensation, Executive, Finance, Audit Committee, and Corporate Social Responsibility committee. Our team assessed Hasbro's Corporate Governance as a low threat to Shareholders because of the follow characteristics:

- The company has had no adverse opinion in their recent history of audits.
- Their Board is diverse; including five women and a 91.67% composition of Independent Directors.
- Shareholders have a majority vote standard to elect Directors annually and have the autonomy to vote for a change in the duration of Directors' election.

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.

BOARD HIGHLIGHTS	
Board Independence	The independent directors of the Board represent 92.86% and there are no members consisting of immediate family members. The Chairman serves on one other outside board.
Excessive Number Outside Boards	"Overboarding" policy states that no Director shall serve on the Board of Directors of more than a total of three public companies (excluding Hasbro's board) and/or registered investment fund families. 6/12 non-executives serve on other boards. (Michael Burne sits on four, Crispin Davis sits on four, Lisa Gersh sits on two, Richard Stoddart sits on two, Mary Beth West sits on four, and Linda Zecher sits on two).
Committees	Hasbro has five formal committees and a corporate social responsibility committee as well. In addition to these, The Board is guided by Hasbro's Corporate Governance Principles.
Shareholder Rights	Each share of Common Stock entitles its holder to one vote on all matters to come before the Meeting, including the election of directors. **In 2015 and 2016 Hasbro received 98% approval rating from shareholders for the executive compensation proposal.**