

Hasbro Inc. (HAS)

\$53.79 (As of 03/12/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: A

Summary

Shares of Hasbro have underperformed the industry in the past six months. This dismal performance can be attributed to the company's weak revenue numbers. In fourth-quarter 2019, the company reported mixed results, wherein earnings surpassed the Zacks Consensus Estimate but revenues missed the same. Moreover, the coronavirus outbreak in China is also likely to hurt the production and supply of toys. However, new product launches, strategic partnerships, strong product lineup and increased focus on gaming are expected to drive performance in the days ahead. Mattel's aggressive efforts to improve its point of sale while managing costs and expansion in international markets bode well. Moreover, robust Barbie sales across all region has been impressive. Of late, earnings estimate for 2020 have witnessed downward revisions.

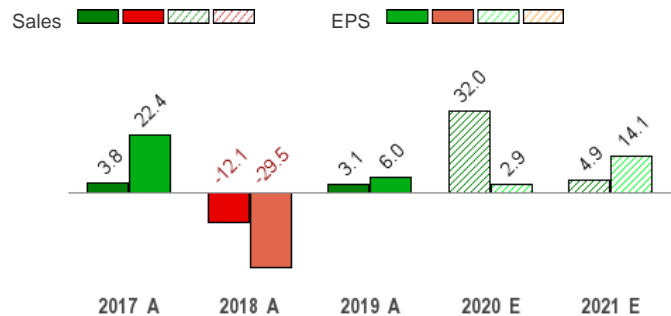
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.87 - \$53.03
20 Day Average Volume (sh)	1,873,929
Market Cap	\$7.4 B
YTD Price Change	-49.1%
Beta	1.21
Dividend / Div Yld	\$2.72 / 5.1%
Industry	Toys - Games - Hobbies
Zacks Industry Rank	Top 34% (87 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	39.3%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	-6.7%
Expected Report Date	04/28/2020
Earnings ESP	0.0%
P/E TTM	13.2
P/E F1	12.8
PEG F1	1.2
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,221 E	1,385 E	2,070 E	1,862 E	6,538 E
2020	1,172 E	1,307 E	1,981 E	1,771 E	6,231 E
2019	733 A	985 A	1,575 A	1,428 A	4,720 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.82 E	\$0.66 E	\$1.88 E	\$1.21 E	\$4.79 E
2020	\$0.58 E	\$0.66 E	\$1.78 E	\$1.12 E	\$4.20 E
2019	\$0.21 A	\$0.78 A	\$1.84 A	\$1.24 A	\$4.08 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/12/2020. The reports text is as of 03/13/2020.

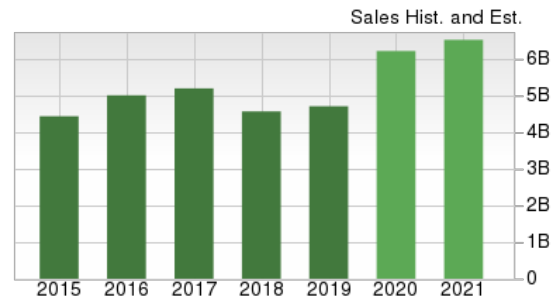
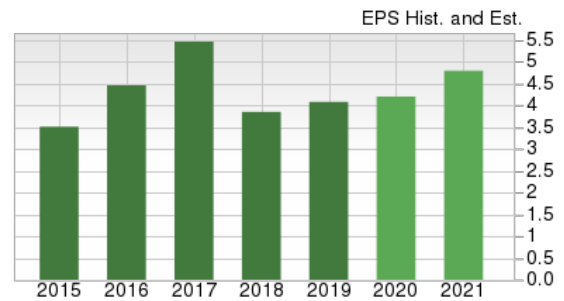
Overview

Based in Pawtucket, RI, Hasbro Inc. is engaged in the design, manufacture and marketing of games and toys. The company, founded in 1923, offers traditional, high-tech and digital toys, games and licensed products under various well-known brands.

Meanwhile, beginning with the first quarter of 2017 earnings, Hasbro has started reporting its revenues by brand portfolio that includes Franchise Brands, Partner Brands, Hasbro Gaming and Emerging Brands. Earlier, the company used to provide revenues breakdown by product category: Boys, Games, Girls and Preschool.

Hasbro has three business segments:

- The **U.S. and Canada segment** (accounting for 48% of total fourth-quarter 2019 revenue) develops, markets and sells boys' action figures, arts and crafts and creative play products, electronic toys and related electronic interactive products, fashion and other dolls, infant products, play sets, preschool toys, plush products, sports action blasters and accessories, vehicles and toy-related specialty products, along with traditional board games, trading cards and role-playing games primarily within the United States and Canada.
- Within the **International segment** (43%), the company develops, markets, and sells both toys as well as certain games in markets outside the U.S. and Canada, primarily in the European, Asia-Pacific, and Latin and South American regions.
- The company's **Entertainment, Licensing and Digital** (9%) includes the consumer products licensing, digital gaming, movie, television and online entertainment operations.



Reasons To Buy:

- ▲ **Sales Boosting Initiatives, Product Launches & Partnerships:** Hasbro continues to invest in innovation. It partnered with Paramount to enhance storytelling and content capabilities. Further, the company invested in Boulder Media — the company's animation studio — and increased digital capacities to drive sales. Hasbro continues to release Transformers Franchise in all forms of entertainment including movies, television and digital expressions. Given the company's several innovative and productive plans for Transformers franchise over the next 10 years, revenues are expected to grow. Notably, in fourth-quarter 2019, Partner Brand's revenues improved 50% from the prior-year quarter owing to Marvel's Avengers and Spider-Man franchises, and Disney's Descendants 3. Star Wars revenue growth was strong in the fourth quarter. Partner Brands grew in the United States and Canada, and International segments.

New products and strategic partnerships, major theatrical releases, along with increased focus on gaming bode well

Apart from Paramount, the company announced that it entered several partnerships in the recent past, all of which indicate Hasbro's efforts to diversify revenues beyond retail sales and expand the customer base. Global retail support for STAR WARS: Solo, a Star Wars story product, was popular among consumers. It is expected to boost growth in the days ahead. During the first quarter, Hasbro launched a crowdsourcing campaign called the Has Lab. It also initiated the largest STAR WARS vehicle, Jabba's Sail Barge. Notably, the company believes that the multi-year entertainment slate for STAR WARS has created a bigger, more sustainable level of business for this top industry property. Moreover, the deal with Walt Disney to manufacture dolls based on Disney Princess stories and characters is expected to continue bolstering Hasbro's top line.

On the product innovation front, Hasbro launched several social games. Among them, Dungeons & Dragons was particularly successful. With the launch of DROPMIX, the company further strengthened its digital gaming revenues. The company further plans to launch Black Panther, beyond the home entertainment window for holidays, including product in the MARVEL LEGENDS series for Black Panther.

- ▲ **Gaming Category to Drive Growth:** Hasbro has a supreme gaming portfolio and the company is refining gaming experiences across a multitude of platforms like face-to-face gaming, off-the-board gaming and digital gaming experiences in mobile. Given a strong product lineup and a greater focus on entertainment backed products, Hasbro's Entertainment and Licensing segment is poised for growth. The company stated that it is currently investing in longer-term larger game play. Meanwhile, in 2017, Hasbro announced that they were launching a gaming subscription service named Hasbro Gaming Crate. Given the latest craze for board games, if Hasbro becomes successful in creating an exclusive set of games, which is available solely via subscription service in the interval of every three months, it is expected to entice consumers and fare well against competitors in the future.

- ▲ **Rapid Growth in Emerging Markets:** In addition to growing brands and leveraging opportunistic toy lines and licenses, the company seeks to grow its international business by expanding into emerging markets in Eastern Europe, Asia and Latin and South America. Emerging markets offer greater opportunities for revenue growth than developed markets and have been contributing to a significant share of Hasbro's revenues, given its investments in advertising and other brand-building efforts.

Despite difficult operating conditions in some key markets, Hasbro's emerging brands' revenues (excluding Fx impact) have increased consistently since 2012. In 2019, emerging brands' revenues improved 5% year over year. Encouragingly, the brand's revenues improved in all the three operating segments in the said period. We expect momentum to continue in the remainder of 2020 as well. Over the next few years, Hasbro anticipates emerging markets to grow in double digits backed by innovation in products, entertainment and market share gains.

- ▲ **Leveraging the Power of Television:** The company continues to increase its brand awareness through television. Hasbro Studio is responsible for the creation and development of storytelling based on Hasbro's brands, across mediums including television, film and digital shorts. Moreover, the company recently aired a TV series on CCTV, on a Chinese Television platform. Hasbro has 40% interest in a joint venture with Discovery Communications called the Discovery Family Channel (formerly known as 'The Hub Network'). This network offers high-quality children's shows as well as family entertainment and educational programs. The deal has been contributing meaningfully to Hasbro's revenues for quite a while now.
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Reasons To Sell:

- ▼ **Dismal Revenue Trend:** The company has been reporting dismal revenues for quite some time now. Its revenues lagged analysts' expectations in six of the trailing nine quarters. Moreover, revenues in 2019 declined 3.1% year over year. Revenues in terms of product category remained soft, particularly in Franchise Brands and Hasbro Gaming, in 2019.
- ▼ **Coronavirus to Impact Baby Yoda Toys Production:** The coronavirus outbreak in China is likely to impact the production of Baby Yoda toys. Assembling toys has been impacted due to quarantines and travel restrictions in China. Supply from China will also be impacted by the outbreak of the deadly virus.
- ▼ **Higher Costs to Hurt Profits:** Hasbro's initiatives including product launches and shift toward more technology-driven toys for reviving its brands and boosting sales would aid profits in the long term. Costs related to those initiatives might prove detrimental to the company in the near term.
- ▼ **Traditional Toys and Age Compression Mar the Top Line:** Toy manufacturers have to battle a broad array of alternative modes of entertainment including video games, MP3 players, tablets, smartphones and other electronic devices. Hasbro's revenues have been under some pressure over the past few quarters due to lower demand for games as children are opting for electronic versions of games on smartphones and tablets.

Another factor affecting demand for these brands is age compression. Kids are growing up and moving on much faster than they used to and also get bored easily. For instance, demand for some toys that were preferred by kids aged 3 to 9 years previously has narrowed down to the band of 3 to 6 years. This is tapering the demand for toys, thereby hurting revenues.

Soft consumer demand, the coronavirus woes and higher costs remain Hasbro's concerns.

Last Earnings Report

Hasbro Q4 Earnings Beat Estimate, Star Wars Demand Strong

Hasbro reported mixed fourth-quarter 2019 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same. Following the quarterly results, shares of the company improved almost 10% during the pre-market trading session.

It reported adjusted earnings of \$1.24 per share, beating the Zacks Consensus Estimate of 89 cents. However, the bottom line declined 6.8% from year-ago reported figure of \$1.33 per share.

In the quarter under review, net revenues came in at \$1,428 million, which lagged the consensus mark of \$1,453 million but improved 2.8% year over year. The upside can primarily be attributed to robust demand for Hasbro's products for Disney's Frozen 2 and Star Wars.

Brand Performances

The Franchise Brand reported revenues of \$661.9 million, down 9% year over year. Revenues increased in Magic: the Gathering, Monopoly and Transformers but were more than offset by declines in Nerf, My Little Pony and Baby Alive.

Partner Brands' revenues surged an impressive 50% from the prior-year quarter to \$408.5 million owing to Marvel's Avengers and Spider-Man franchises, and Disney's Descendants 3. Star Wars revenue growth was strong in the fourth quarter. Partner Brands grew in the U.S. and Canada, and International segments.

Revenues at Hasbro Gaming amounted to \$246.5 million, reflecting fall of 8% from the prior-year period. Revenues increased from Dungeons & Dragons and other games, which were offset by declines in Pie Face and Speak Out. Moreover, its total gaming category decreased 7.7% to \$442.1 million.

Meanwhile, Emerging Brands' revenues decreased 7% year over year to \$111.1 million.

Segmental Revenues

Regionally, net revenues at the U.S. and Canada segment rose 3% to \$682.4 million in the quarter. Moreover, operating margin contracted 30 basis points (bps) from the prior-year quarter to a negative 14.9%.

The International segment's revenues amounted to \$615.1 million, which declined 1% year over year. The segment's operating margin came in at 9.1% compared with 4.7% reported in the year-ago quarter.

Meanwhile, revenues at the Entertainment, Licensing and Digital segment — which was named Entertainment and Licensing earlier — improved 19% year over year to \$130.2 million. Moreover, the segment's operating margin increased to 28.5% from negative 42.8% in the prior-year quarter.

Operating Highlights

Hasbro's cost of sales, as a percentage of net revenues, contracted 290 bps to 40.4%. Selling, distribution and administration expenses — as a percentage of net revenues — were 20.2%, compared with 31.2% in the prior-year quarter.

Balance Sheet

Cash and cash equivalents as of Dec 29, 2019 amounted to \$4,580.4 million, up from \$1,182.4 million on Dec 30, 2018. At the end of the reported quarter, inventories totaled \$446.1 million compared with \$443.4 million in the comparable year-ago period. As of Dec 29, 2019, long-term debt increased to \$4,046.5 million from \$1,695.1 million from Dec 30, 2018.

Hasbro's board of directors declared a quarterly cash dividend of 68 cents per common share. The dividend will be payable on May 15, 2020 to shareholders of record at the close of business as of May 1.

In fourth-quarter 2019, the company repurchased 702,125 shares of common stock at an average price of \$87.41 per share for \$61.4 million. At the end of the fourth quarter, \$366.6 million was available under the current share repurchase authorization.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	-1.72%
EPS Surprise	39.33%
Quarterly EPS	1.24
Annual EPS (TTM)	4.07

Valuation

Hasbro's shares are down 49.1% year-to-date and 37.8% in the trailing 12-month period. Stocks in the Zacks sub-industry are down by 16.5% while Zacks Consumer Discretionary sector is down by 30.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector were down by 1% and 22.2%, respectively.

The S&P 500 index is down 23% in the year-to-date period and 12.5% in the past year.

The stock is currently trading at 12.46X forward 12-month earnings, which compares to 27.34X for the Zacks sub-industry, 14.44X for the Zacks sector and 14.38X for the S&P 500 index.

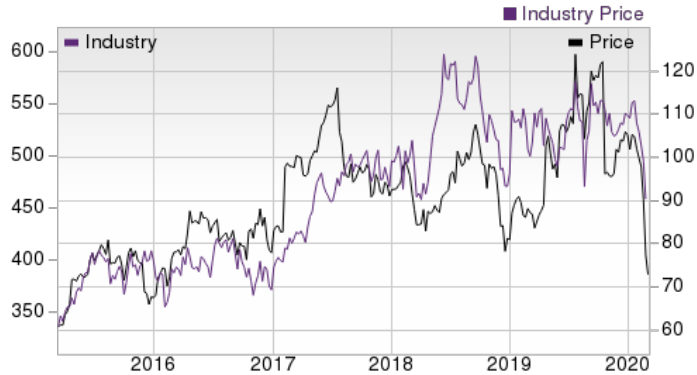
Over the past five years, the stock has traded as high as 27.73X and as low as 12.46X, with a 5-year median of 19.21X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$62 price target reflects 14.18X forward 12-month earnings.

The table below shows summary valuation data for HAS.

Valuation Multiples - HAS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.46	27.34	14.44	14.38
	5-Year High	27.73	28.01	23.23	19.34
	5-Year Low	12.46	24.57	14.44	14.38
	5-Year Median	19.21	26.4	19.88	17.42
P/S F12M	Current	1.17	4.28	1.61	2.64
	5-Year High	3.11	5.98	3.19	3.44
	5-Year Low	1.17	3.23	1.61	2.54
	5-Year Median	2.16	4.52	2.53	3
P/B TTM	Current	2.27	3.2	2.26	3.34
	5-Year High	9.27	6.55	5.04	4.56
	5-Year Low	2.27	3.16	2.26	2.85
	5-Year Median	6.48	4.03	4.25	3.63

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 253)



Top Peers

Mattel, Inc. (MAT)	Outperform
Activision Blizzard, Inc (ATVI)	Neutral
Electronic Arts Inc. (EA)	Neutral
International Game Technology (IGT)	Neutral
JAKKS Pacific, Inc. (JAKK)	Neutral
Nintendo Co. (NTDOY)	Neutral
Take-Two Interactive Software, Inc. (TTWO)	Neutral
Glu Mobile Inc. (GLUU)	Underperform

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	HAS Neutral	X Industry	S&P 500	EA Neutral	MAT Outperform	TTWO Neutral
VGM Score	B	-	-	C	A	C
Market Cap	7.36 B	5.05 B	17.38 B	27.04 B	2.74 B	12.29 B
# of Analysts	7	6.5	13	14	5	22
Dividend Yield	5.06%	0.00%	2.51%	0.00%	0.00%	0.00%
Value Score	B	-	-	D	C	D
Cash/Price	0.46	0.18	0.05	0.18	0.16	0.18
EV/EBITDA	7.10	17.26	10.90	18.33	17.26	20.06
PEG Ratio	1.17	1.66	1.54	1.51	12.34	1.92
Price/Book (P/B)	2.27	3.60	2.35	3.77	5.57	5.12
Price/Cash Flow (P/CF)	8.59	19.54	9.60	20.76	19.82	17.21
P/E (F1)	12.53	20.33	13.98	19.75	123.44	23.15
Price/Sales (P/S)	1.56	2.60	1.89	5.02	0.61	4.29
Earnings Yield	7.81%	4.77%	7.07%	5.07%	0.76%	4.32%
Debt/Equity	1.35	0.18	0.70	0.14	5.79	0.06
Cash Flow (\$/share)	6.27	2.40	7.01	4.50	0.40	6.30
Growth Score	D	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	5.80%	15.28%	10.85%	16.39%	-42.20%	29.79%
Proj. EPS Growth (F1/F0)	2.98%	15.66%	5.99%	0.76%	121.33%	-22.36%
Curr. Cash Flow Growth	-3.32%	23.09%	6.15%	11.18%	-214.17%	98.75%
Hist. Cash Flow Growth (3-5 yrs)	5.21%	5.21%	8.52%	17.13%	-28.91%	0.39%
Current Ratio	5.37	1.76	1.24	2.84	1.76	1.64
Debt/Capital	57.46%	15.53%	42.57%	12.09%	85.27%	5.93%
Net Margin	11.03%	11.42%	11.64%	52.52%	-4.90%	11.81%
Return on Equity	25.57%	14.23%	16.74%	18.86%	-23.30%	15.30%
Sales/Assets	0.77	0.75	0.54	0.53	0.86	0.63
Proj. Sales Growth (F1/F0)	32.01%	4.90%	3.54%	3.55%	1.53%	-3.13%
Momentum Score	A	-	-	B	A	B
Daily Price Chg	-14.59%	-6.28%	-10.03%	-7.74%	-11.73%	-8.98%
1 Week Price Chg	-5.83%	-0.51%	-0.67%	6.21%	-1.02%	9.50%
4 Week Price Chg	-44.54%	-14.53%	-28.22%	-14.23%	-45.14%	-3.43%
12 Week Price Chg	-48.47%	-13.89%	-25.63%	-13.03%	-39.42%	-11.05%
52 Week Price Chg	-37.82%	-17.36%	-16.72%	-5.54%	-45.37%	17.24%
20 Day Average Volume	1,873,929	213,498	3,061,271	3,729,705	7,321,583	2,132,328
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.74%	0.00%	-0.32%	0.00%	194.12%	0.14%
(F1) EPS Est 12 week change	-9.14%	-5.84%	-0.65%	0.18%	160.95%	-2.53%
(Q1) EPS Est Mthly Chg	345.05%	0.00%	-0.62%	0.00%	-7.00%	-8.59%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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