

Hasbro Inc. (HAS)

\$103.64 (As of 01/27/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 11/21/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: C

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. Furthermore, its revenues lagged analysts' expectations in five of the trailing eight quarters. Soft revenues at the U.S. and Canada segment as well as the International unit are added concerns. At the Franchise Brand, Hasbro Gaming and Emerging Brands the company recorded dismal top-line performance. Also, the trade war between the United States and China is worrisome. Over the past 30 days, earnings estimate for 2020 have witnessed downward revision. Furthermore, Hasbro will continue to be affected by the bankruptcy of Toys"R"Us. Lower demand due to rising demand electronic versions of games pose a serious threat.

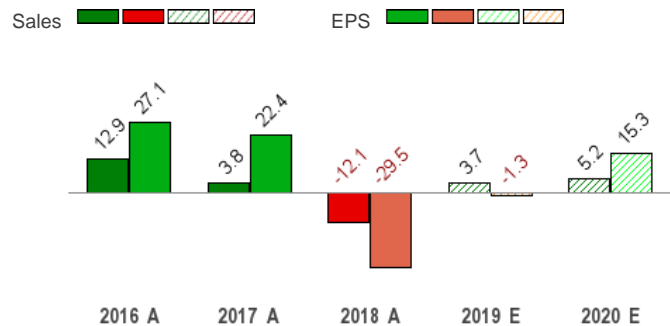
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.87 - \$82.87
20 Day Average Volume (sh)	891,865
Market Cap	\$13.1 B
YTD Price Change	-1.9%
Beta	1.04
Dividend / Div Yld	\$2.72 / 2.6%
Industry	Toys - Games - Hobbies
Zacks Industry Rank	Bottom 10% (230 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-17.1%
Last Sales Surprise	-9.0%
EPS F1 Est- 4 week change	-5.4%
Expected Report Date	02/11/2020
Earnings ESP	-14.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	799 E	1,034 E	1,655 E	1,531 E	4,997 E
2019	733 A	985 A	1,575 A	1,459 E	4,751 E
2018	716 A	904 A	1,570 A	1,389 A	4,580 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.15 E	\$0.74 E	\$1.96 E	\$1.31 E	\$4.38 E
2019	\$0.21 A	\$0.78 A	\$1.84 A	\$0.96 E	\$3.80 E
2018	\$0.10 A	\$0.48 A	\$1.93 A	\$1.33 A	\$3.85 A

*Quarterly figures may not add up to annual.

P/E TTM	24.9
P/E F1	23.7
PEG F1	2.2
P/S TTM	2.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/27/2020. The reports text is as of 01/28/2020.

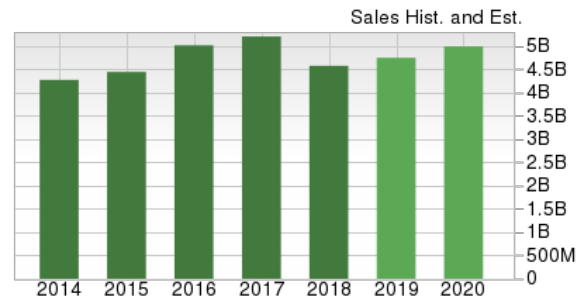
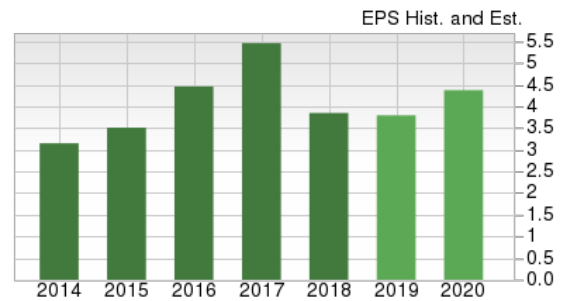
Overview

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 four business segments:

- The **U.S. and Canada segment** (accounting for 57% of total third-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** (35.6%), 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 and Licensing segment** (7.4%) includes the consumer products licensing, digital gaming, movie, television and online entertainment operations.
- The **Global Operations segment** is engaged in manufacturing and sourcing finished products for the company's U.S. and Canada and International segmen



Reasons To Sell:

▼ **Dismal Revenue Trend:** The company has been reporting dismal revenues for quite some time now. Its revenues lagged analysts' expectations in five of the trailing eight quarters. The company's revenues in the U.S. and Canada segment grew just 3% in the past nine months, while the International unit declined 1% in the same period. Partner Brands' dismal performance, which overshadowed growth in the Entertainment, Licensing and Digital segment, resulted in the downturn.

▼ Toys "R" Us liquidation, a tighter retail inventory and soft consumer demand remain Hasbro's concerns.

Revenues in terms of product category remained soft, particularly in Franchise Brands and Hasbro Gaming, in the reported quarters of 2019. The company's third-quarter results were affected by choppy market conditions owing to increased tariffs and trade tensions. Retailers have changed their order patterns to ease excess burden that has enabled the supply chain to meet high demand in a condensed period of time.

Meanwhile, the stock declined 17.8% in the past six months. Earnings estimates for 2020 have decreased 4.6% over the past 30 days, depicting analysts' concern over the company's growth potential.

▼ **Toys "R" Us Liquidation Might Pressurize Bottom Line:** The U.S. toy industry was taken by surprise when the country's largest independent toy seller, Toys "R" Us filed for bankruptcy in last September. The toy chain recently confirmed that it is liquidating its entire U.S. operations (735 Toys "R" Us and Babies "R" Us stores). Hasbro, along with other toymakers like Mattel and JAKKS Pacific is affected and will continue to be affected as a considerable portion of their revenues were generated from sales to Toys "R" Us.

In fact, Hasbro's net revenues in 2018 declined 12% year over year primarily due to the liquidation. It also led to a sales slump across the majority of brands under Hasbro. We believe that the effect of this liquidation will linger further as Toys "R" Us was the last major chain fully dedicated to selling toys. The overall industry is expected to grow at a much slower pace for quite some time. According to NPD, the company is still languishing in the Pacific markets like Australia due to the liquidation of Toys "R" Us.

▼ **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.

Risks

- **Sales Boosting Initiatives, Product Launches & Partnerships:** Hasbro continues to invest in innovation. It partnered with Paramount to enhance storytelling and content capabilities. Also, 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 third-quarter 2019, Partner Brand's revenues increased 40% year over year on the back of these initiatives, along with Avengers and Spider-Man franchises.

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. Robust performances by MAGIC: THE GATHERING, MONOPOLY and TRANSFORMERS in the third quarter of 2019 bode well for the gaming category. 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 the last year, 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 the first nine months of 2019, emerging brands' revenues increased 11% year over year. Encouragingly, the brand's revenues improved in all the three operating segments in the said period. We expect the momentum to continue in the remainder of 2019 as well. Over the next few years, Hasbro expects 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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Last Earnings Report

Hasbro (HAS) Q3 Earnings and Revenues Lag, Margins Down

Hasbro, Inc. reported lower-than-expected results in third-quarter 2019. Both the top and bottom lines lagged the Zacks Consensus Estimate.

It reported adjusted earnings of \$1.84 per share, missing the Zacks Consensus Estimate of \$2.22 by 17.1%. Also, the said metric declined 4.7% from year-ago reported figure of \$1.93 per share.

In the quarter under review, net revenues came in at \$1,575 million, which lagged the consensus estimate of \$1,735 million by 9.2% but grew slightly from the prior-year figure of \$1,570 million.

The upside was primarily attributed to robust performance of the Entertainment, Licensing and Digital business, partially offset by a decline in the U.S. and Canada segment's revenues.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	-9.03%
EPS Surprise	-17.12%
Quarterly EPS	1.84
Annual EPS (TTM)	4.16

Brand Performances

The **Franchise Brand** posted revenues of \$779.7 million, down 8% year over year. Revenues increased in MAGIC: THE GATHERING, MONOPOLY and TRANSFORMERS, but were more than offset by declines in NERF, MY LITTLE PONY, BABY ALIVE and PLAY-DOH. Revenues declined in the U.S. and Canada, and International segments, but improved in the Entertainment, Licensing and Digital segment.

Partner Brands' revenues increased an impressive 40% from the prior-year quarter to \$427 million owing to Marvel's Avengers and Spider-Man franchises, and Disney's Descendants 3. The same grew in the United States and Canada, and in international regions served by the company.

Revenues at **Hasbro Gaming** totaled \$232.3 million, reflecting fall of 17% from the prior-year period. Revenues increased from DUNGEONS & DRAGONS and other games, which were offset by declines in PIE FACE and SPEAK OUT. Hasbro gaming revenues decreased in all the three operating segments. However, its total gaming category increased marginally to \$449.4 million.

Meanwhile, **Emerging Brands'** revenues grew 1% year over year to \$136.2 million, driven by increased shipments in POWER RANGERS and PLAYSKOOL, partially offset by lower Quick Strike collectible offerings.

Segmental Revenues

Regionally, net revenues at the **U.S. and Canada** segment fell 2% to \$898.3 million in the quarter. The segmental performance was attributed to decline in revenues from Franchise Brands and Hasbro Gaming. Moreover, operating margin contracted 170 basis points (bps) from the prior-year quarter to a negative 13%.

The **International** segment's revenues amounted to \$561.1 million, which rose 1% year over year. The segment's operating margin came in at 1% versus a negative 50% reported in the year-ago quarter.

Meanwhile, revenues at the **Entertainment, Licensing and Digital** segment — which was named Entertainment and Licensing earlier — improved 20% year over year to \$115.8 million. However, the segment's operating margin contracted to 34% from 99% recorded in the prior-year quarter.

Operating Highlights

Hasbro's cost of sales, as a percentage of net revenues, contracted 200 bps to 39.8%. Selling, distribution and administration expenses — as a percentage of net revenues — were 17.5%, up 10 bps from the prior-year quarter.

Balance Sheet

Cash and cash equivalents as of Sep 29, 2019 amounted to \$1,060 million, up from \$907.1 million on Sep 30, 2018. At the end of the reported quarter, inventories totaled \$589.1 million compared with \$610.9 million in the comparable year-ago period. As of Sep 29, 2019, long-term debt increased slightly to \$1,696.2 million from 2018-end.

Hasbro's board of directors declared a quarterly cash dividend of 68 cents per common share. The dividend will be payable on Nov 15, 2019 to its shareholders of record at the close of business as of Nov 1, 2019.

In third-quarter 2019, the company repurchased 14,345 shares of common stock at an average price of \$104.82 per share for \$9.5 million. At the end of the quarter, \$367.8 million was available under the current share repurchase authorization.

Valuation

Hasbro's shares are up 14.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector is up by 21.9% and 17.3%, respectively.

The S&P 500 index is up 24.1% in the past year.

The stock is currently trading at 23.69X forward Price to Earnings value, which compares to 28.86X for the Zacks sub-industry, 20.29X for the Zacks sector and 19.08X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.77X and as low as 15.47X, with a 5-year median of 20.54X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$88 price target reflects 20.13X forward Price to Earnings value

The table below shows summary valuation data for HAS.

Valuation Multiples - HAS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F1	Current	23.69	28.86	20.29	19.08
	5-Year High	27.77	37.21	27.89	21.51
	5-Year Low	15.47	17.58	17.98	16.36
	5-Year Median	20.54	26.79	21.95	18.41
P/S F1	Current	2.62	5.48	2.44	3.51
	5-Year High	3.19	6.29	3.28	3.51
	5-Year Low	1.54	3.02	1.21	2.65
	5-Year Median	2.21	4.56	2.61	3.04
P/B TTM	Current	7.11	4.11	3.5	4.5
	5-Year High	9.27	6.55	5.04	4.55
	5-Year Low	4.69	3.11	3.13	2.85
	5-Year Median	6.51	4.04	4.28	3.62

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (230 out of 255)



Top Peers

Activision Blizzard, Inc. (ATVI)	Outperform
Electronic Arts Inc. (EA)	Neutral
International Game Technology (IGT)	Neutral
JAKKS Pacific, Inc. (JAKK)	Neutral
Mattel, Inc. (MAT)	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 Underperform	X Industry	S&P 500	EA Neutral	MAT Neutral	TTWO Neutral
VGM Score	D	-	-	D	F	C
Market Cap	13.08 B	8.99 B	23.86 B	32.28 B	4.90 B	13.95 B
# of Analysts	4	6	13	14	3	21
Dividend Yield	2.62%	0.00%	1.81%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	F	F
Cash/Price	0.08	0.11	0.04	0.15	0.04	0.15
EV/EBITDA	22.70	23.20	13.94	23.20	205.20	23.86
PEG Ratio	2.24	1.80	2.00	1.80	NA	2.02
Price/Book (P/B)	7.11	4.79	3.25	4.55	10.79	6.39
Price/Cash Flow (P/CF)	17.91	21.86	13.46	24.59	NA	19.54
P/E (F1)	23.89	23.57	18.67	23.44	NA	25.43
Price/Sales (P/S)	2.80	3.43	2.62	6.35	1.07	4.38
Earnings Yield	4.23%	4.08%	5.35%	4.27%	-0.85%	3.93%
Debt/Equity	0.92	0.22	0.72	0.14	6.30	0.05
Cash Flow (\$/share)	5.79	2.86	6.92	4.50	-0.35	6.30
Growth Score	B	-	-	F	C	B
Hist. EPS Growth (3-5 yrs)	7.52%	16.17%	10.68%	16.76%	-38.87%	33.73%
Proj. EPS Growth (F1/F0)	15.28%	16.56%	7.51%	0.56%	73.13%	-19.76%
Curr. Cash Flow Growth	-18.74%	11.18%	13.40%	11.18%	22.75%	98.75%
Hist. Cash Flow Growth (3-5 yrs)	3.99%	17.55%	8.78%	17.13%	NA	0.39%
Current Ratio	2.33	1.60	1.22	3.32	1.60	1.48
Debt/Capital	47.96%	17.93%	42.92%	12.20%	86.30%	5.16%
Net Margin	5.59%	8.37%	11.39%	54.01%	-4.53%	11.14%
Return on Equity	30.40%	13.94%	17.19%	17.54%	-26.03%	26.81%
Sales/Assets	0.90	0.80	0.54	0.53	0.87	0.72
Proj. Sales Growth (F1/F0)	5.18%	5.72%	4.09%	4.13%	0.55%	-2.91%
Momentum Score	C	-	-	A	F	C
Daily Price Chg	-0.99%	-1.35%	-1.40%	-1.58%	-1.12%	-1.76%
1 Week Price Chg	-0.43%	0.00%	-1.09%	-0.53%	0.00%	-3.64%
4 Week Price Chg	-1.46%	0.59%	-0.25%	3.39%	3.29%	0.59%
12 Week Price Chg	6.08%	6.06%	3.64%	12.64%	16.21%	5.01%
52 Week Price Chg	14.23%	14.23%	18.08%	22.21%	13.51%	20.20%
20 Day Average Volume	891,865	30,053	1,615,215	1,844,206	3,236,600	1,055,028
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.10%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.38%	-0.22%	0.00%	0.17%	-14.29%	-0.28%
(F1) EPS Est 12 week change	-8.74%	0.53%	-0.17%	1.47%	9.43%	1.76%
(Q1) EPS Est Mthly Chg	-23.68%	0.00%	0.00%	0.79%	0.00%	-1.47%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	B
Momentum Score	C
VGM Score	D

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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