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Company Ticker: **HAS**
Sector: **Consumer Goods**
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Hasbro (HAS) Earnings Report: Q1 2016 Conference Call Transcript

The following Hasbro conference call took place on April 18, 2016, 08:30 AM ET. This is a transcript of that earnings call:

Company Participants

- Debbie Hancock; Hasbro, Inc. ; VP IR
- Brian Goldner; Hasbro, Inc. ; Chairman, President, CEO
- Deb Thomas; Hasbro, Inc. ; EVP, CFO

Other Participants

- Felicia Hendrix; Barclays Capital; Analyst
- Drew Crum; Stifel Nicolaus; Analyst
- Arpine Kocharyan; UBS; Analyst
- Stephanie Wissink; Piper Jaffray & Co.; Analyst
- Fred Wightman; Citigroup; Analyst
- Taposh Bari; Goldman Sachs; Analyst
- Jaime Katz; Morningstar; Analyst
- Tim Conder; Wells Fargo Securities, LLC; Analyst
- Lee Giordano; Sterne Agee CRT; Analyst
- Eric Handler; MKM Partners; Analyst
- Jim Chartier; Monness, Crespi, Hardt & Co.; Analyst
- Gerrick Johnson; BMO Capital Markets; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the Hasbro first-quarter 2016 earnings conference call.

(Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time.

At this time, I'd like to turn the call over to Ms. Debbie Hancock, Vice President of Investor Relations. Please go ahead.

Debbie Hancock (VP IR):

Thank you. Good morning, everyone. Joining me this morning are Brian Goldner Hasbro's Chairman, President and Chief Executive Officer; and Deb Thomas, Hasbro's Chief Financial Officer.

Today, we will begin with Brian and Deb providing commentary on the Company's performance, and then we will take your questions.

Our first-quarter earnings release was issued this morning and is available on our website. Additionally, presentation slides containing information covered in today's earnings release and call are also available on our site.

The press release and presentation include information regarding non-GAAP financial measures. Please note that whenever we discuss earnings per share or EPS we are referring to earnings per diluted share.

Before we begin, I would like to remind you that during this call and the question-and-answer session that follows, members of Hasbro management may make forward-looking statements concerning management's expectations, goals, objectives, and similar matters.

There are many factors that could cause actual results or events to differ materially from the anticipated results or other expectations expressed in these forward-looking statements. Some of those factors are set forth in our annual report on Form 10-K, our most recent 10-Q, in today's press release, and in our other public disclosures. We undertake no obligation to update any forward-looking statements made today to reflect events or circumstances occurring after the date of this call.

I would now like to introduce Brian Goldner. Brian?

Brian Goldner (Chairman, President, CEO):

Thank you, Debbie. Good morning, everyone. Thank you for joining us today.

The first quarter's revenue, operating profit and net earnings growth reflected a commitment to our strategy and the inherent benefits of focusing on Hasbro's franchise brands, key strategic partner brands and our ability to execute around the blueprint.

The global Hasbro teams continue to perform at a very high level, delivering innovative brand experiences informed by global consumer insights and supported by compelling storytelling. We are building deep and relevant brand connections with consumers across broad demographics and geographies.

First-quarter revenues grew 16%, and 20% absent FX, driven by Hasbro franchise brands, partner brands, and strength across geographies. Hasbro's global teams delivered an extremely strong quarter with double-digit revenue and operating profit growth in the US and Canada and international segments.

Internationally we grew revenues despite the foreign exchange environment, with strong gains in many developed economies. When adjusted for foreign exchange, we posted double-digit revenue growth in all major geographic regions. Emerging market revenues increased 6% absent FX, and we continue to expect these markets to grow revenues double digits, absent FX, for 2016.

While consumer demand remains robust, we are beginning to see an impact on some retailers from the ongoing economic challenges.

Global point of sale increased 27% in the quarter behind double-digit growth in all major regions -- North America, Europe, Latin America, and Asia-Pacific -- and double-digit growth in both toys and games.

In the US, point of sale increased double digits in all categories -- boys, girls, games, and preschool -- with growth in franchise and partner brands. In addition, according to NPD, through the first two months of the year we continued to gain share in nearly every major market.

Overall franchise brand revenues grew in the quarter. In total, toy and game revenues for franchise brands increased 9% absent FX, increasing 12% in the US and Canada segment, and 6% in the international segment.

The first quarter had several unique and expected comparison challenges within the franchise brands which don't change our positive outlook for the full year. Q1 was a tough comparison within the entertainment and licensing category.

Franchise brand revenues in the segment declined this year versus last year, when we recorded revenue for a multiyear digital streaming deal. The agreement includes My Little Pony, Littlest Pet Shop, and Transformers programming. The segment also had tough comparisons in consumer products and film revenues related to the 2014 Transformers movie recorded last year. Transformers toy and game revenues were also down versus a very strong first quarter of last year, when it benefited from the movie.

Franchise brand POS in the quarter was up high single digits globally and double digits in the US, more than overcoming the negative Transformers comparison. Within our franchise brands, Nerf and Play-Doh continued to deliver strong growth.

New innovations from Nerf including Modulus and Rival are performing well, and 2016 marks their first full year in the market. Play-Doh continues to drive growth in playsets and compounds. This year we are launching an entirely new system of play with Play-Doh Town that is now available in the US and rolling out internationally throughout 2016.

My Little Pony grew in the US and Canada segment and, absent FX, in the international segment. We continue to deliver innovative new product, strong licensing programs, and compelling entertainment including the sixth season of My Little Pony: Friendship Is MAGIC, which began airing March 26.

In addition, the launch of the new Equestria Girls minidoll segment is off to a strong start. We are working through some retail inventory within Equestria Girls, but we are optimistic about the initial consumer reaction to our new offering and the overall outlook for My Little Pony globally.

As I mentioned, Transformers revenue represented the most significant decline within our franchise brands for the quarter. New entertainment began late in the first quarter of this year, with the second season of Transformers: Robots in Disguise on Cartoon Network in the US and currently rolling out internationally.

Machinima and Hasbro are unveiling all-new entertainment targeting the older Transformers fan later this year. We are also actively developing the next chapter of the Transformers' theatrical stories. In February, Paramount Pictures dated Transformers 5 for release on June 23, 2017, with two additional Transformers films planned for June of 2018 and 2019. We have global teams of talented individuals working on this multi-year theatrical entertainment and innovation slate.

Overall games revenue was down slightly in the quarter, and flat absent FX. Pie Face continues to be in high demand. We also saw growth in our digital gaming licensing, including Yahtzee, which is being driven by our mobile gaming license with Scopely.

Duel Masters, a Japanese trading card game, also contributed to growth in the quarter. We are investing to build great gaming experiences in both face-to-face and digital play environments.

Our outlook for MAGIC: The Gathering remains positive. The release schedule fluctuates, and revenue timing is story-driven, but it is effectively driving engagement with players.

We shipped the first set in the Shadows over Innistrad block on April 8 versus a first-quarter release last year. It is off to a fabulous start, with pre-release attendance up 20%. This validates our change to a two-set block.

MAGIC recently achieved the milestone of 1 million active players in our organized play system. We also have 65,000 players who play in premiere events streamed to e-sports audiences. This is an area we are investing in to both grow the number of events and the player base.

The team at Wizards of the Coast is doing great work to foster both analog and digital play for the MAGIC community. We are very pleased to have Chris Cocks from Microsoft joining us as president of Wizards of the Coast.

As we announced last week, Greg Leeds is leaving Hasbro . We are grateful for his contributions and wish him the best in his new endeavors.

The first quarter also benefited from the strength of our partner brands. Retail and consumer demand for Star Wars remained very high, and at this early stage of the year we continue to believe 2016 revenues could be in line with last year. Star Wars: The Force Awakens was recently released in home entertainment; and Rogue One, a Star Wars story, is scheduled for release on December 16.

The first quarter also marked the on-shelf date for Hasbro's line of Disney Princess and Disney Frozen fashion dolls and small dolls. Initial consumer reaction has been very positive, and our approach of offering the entire range of Disney Princess is resonating. New content and the all new characters of the Moana and Elena of Avalor will further support our innovative products this year.

In addition, Marvel's Captain America: Civil War will be in theaters on May 6. We have a robust line and strong planned retail promotional activity supporting this film.

The first quarter was a good start to the year, but we know there is a lot of the year left to deliver. For 2016 and beyond, we have an innovative line of both Hasbro brands and partner brands, and we are investing to deliver the best experiences to retailers and consumers globally. This includes continued strategic investment and further development of our capabilities around the brand blueprint including in storytelling, digital gaming, and our consumer products licensing efforts.

I will now turn the call over to Deb. Deb?

Deb Thomas (EVP, CFO):

Thank you, Brian, and good morning, everyone. The first quarter was a very good quarter for Hasbro . The strength of our results reflected the continued momentum in our business and strong execution by our global team.

We grew revenues, operating profit, and earnings despite the continued negative impact from foreign exchange and challenging economic environments in some international markets. We returned $93.2 million in cash to shareholders and ended the quarter with a very strong balance sheet, well positioned to support our 2016 growth outlook.

Looking at our segments for the first-quarter 2016, revenues in the US and Canada segment increased 28%. The boys, girls, and preschool categories posted revenue growth, while the games category declined slightly.

Hasbro franchise brand revenues increased, and partner brands further contributed to growth, with revenue increases in Star Wars, Disney Princess, Frozen, and Descendents, as well as Yo-kai Watch.

US point of sale posted solid double-digit growth in all categories. Retail inventory continued to be of very good quality. Operating profit in the US and Canada segment increased 89%, reflecting higher revenues partially offset by higher expense levels.

International segment revenues grew 13%. Excluding the negative $26.7 million impact from foreign exchange, international segment revenues increased 22%.

Revenue in this segment grew in all four product categories: boys, games, girls, and preschool. Franchise brand revenues were down slightly as reported, but grew absent FX. Partner brands were also positive contributors, including Star Wars, Disney Princess, and Frozen.

Operating profit in this segment increased 50% to $2.9 million. Profit improvement on higher revenues was partially offset by increased expenses year-over-year.

During the quarter we also took a $13.8 million bad debt provision for a potentially uncollectible receivable. This was the first significant provision taken since we began our expansion in 2008 into more international territories, notably emerging markets.

Overall, we feel we have taken the appropriate risks and manage our higher-risk accounts very closely.

Current exchange rates in certain regions have changed favorably since the beginning of this year. Although the euro has strengthened, other currencies continued to weaken in the quarter.

For the full year we forecasted an approximate $100 million negative impact from foreign exchange compared to 2015. If rates, in particular the euro, stay favorable that impact would be much lower.

Entertainment and licensing sector revenues declined 30%. In the first quarter of last year the segment benefited from a multiyear digital streaming deal for Hasbro Studios television programming.

Consumer product licensing and entertainment revenues also declined in the quarter, most notably from the difficult comparison with last year's Transformers movie-related merchandise and revenues. Licensing revenue is generally recorded in arrears, and last year's first quarter reflected the holiday 2014 Transformers movie-related revenue.

Segment operating profit declined 67%. In addition to lower revenue, we continue to make investments in our consumer products team, digital gaming, and storytelling to drive future growth in these higher profit margin revenue sources. These are strategically important capabilities which truly differentiate Hasbro's brands with both consumers and retailers.

Turning to overall expenses, higher revenues drove improved expense leverage and a 270 basis point increase in operating profit margin for the quarter.

We continue to see growth in partner brands, which drive lower cost of sales-to-revenue and higher royalty-to-sales ratios. Both measures were close to flat with last-year levels as costs of sales for the quarter were 34.9% of revenues and royalties totaled 8.4%.

Product development dollar growth reflects continued investment in innovation across our brand portfolio, including franchise, partner, and new brands. Advertising remained approximately flat as a percentage of sales, and intangible amortization declined, reflecting some of our digital gaming assets becoming fully amortized in the second quarter of last year.

Program production cost amortization was also down in the quarter. In the first quarter of last year this line reflected the higher revenue and associated amortization with our streaming deal for Hasbro programming.

SG&A in the quarter was down as a percent of revenues. SG&A dollars increased 12%, primarily due to investments around our brand blueprint, bad debt, and higher compensation expense.

Our first-quarter results support our ability to sustain and grow operating profit levels over time. While achieving this, we continue to make incremental investments in our brands, including in the digital ecosystem for MAGIC: The Gathering, in our IT systems to drive efficiencies and enhance innovation, and in our talent and capabilities to execute our brand blueprint. In the first quarter the strength of our business enabled us to deliver operating profit expansion while investing for future growth.

Turning to our results below operating profit for the quarter, other expense was %$2.7 million versus income of $4.7 million last year. Increased profits associated with our 40% share of the operating income in the Discovery Family Channel combined with higher interest income on our investments was more than offset by larger losses from foreign exchange transactions.

The underlying tax rate was 26.5%, down from 27% last year and essentially in line with 26.4% for the full-year 2015. Diluted earnings per share were $0.38 compared to $0.21 last year.

Our balance sheet remains strong. Cash totaled $1.1 billion at quarter end. We generated $294 million in operating cash flow during the quarter and $531 million over the past 12 months.

During the first quarter we returned $93.2 million to shareholders: $57.4 million in dividends and $35.8 million in share repurchases. Our May 16 dividend payment will be the first quarter at the higher dividend rate of $0.51 per share, which the Board increased 11% in February.

Receivables at quarter end were up 19% versus the 16% growth in revenues. DSOs increased two days to 73 days.

Absent the impact of foreign exchange, receivables increased approximately 23% versus 20% revenue growth absent FX. Overall, our accounts receivable are in good condition and collections continue to be strong.

Inventories increased 36% versus last year. Adjusting for a negative foreign-exchange impact, inventory increased 41%, reflecting the new businesses we are supporting, the timing of entertainment, and our outlook for 2016. Overall, we believe we have the right amount and quality of inventory at retail and at Hasbro to meet our growth expectations for the year.

Throughout the first quarter we maintained and improved upon the high level of performance we delivered last year. While we have a great deal of the year left to go, we are well positioned to capitalize on the innovation and entertainment driving our brands.

Brian and I are now happy to take your questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Felicia Hendrix, Barclays.

Felicia Hendrix (Analyst - Barclays Capital):

Hey, Brian. I just wanted to touch on a comment that you made in your prepared remarks about some retailers being affected from global economic challenges. I was just wondering: can you elaborate?

Is that globally, is that US, internationally? Can you just talk about that comment a little bit more, please?

Brian Goldner (Chairman, President, CEO):

Sure. We're really referring to a few of our retailers in the emerging markets. Deb noted a bad debt provision that we took in the quarter, and so we were just indicating that we had a couple of retailers in the emerging markets that were challenged and where we felt that there was some revenue that would be uncollectible.

Deb Thomas (EVP, CFO):

Consumer takeaway in those markets, though, continues to be strong. So as we look at the emerging markets we still have the outlook of double-digit growth absent FX for the year.

Felicia Hendrix (Analyst - Barclays Capital):

Okay, and then in --

Brian Goldner (Chairman, President, CEO):

Yes so, this isn't -- yes, it's a good point. I mean, this isn't consumer related. We're not talking about the takeaways.

We talked about double-digit growth in POS across all of our regions in the quarter. We had very strong double-digit growth throughout our business. So again, we're just referring to a few retailers where we took a provision.

Felicia Hendrix (Analyst - Barclays Capital):

Okay; that's very helpful. Thank you. Then you gave us some nice color on games and puzzles and MAGIC. It looks like MAGIC, with the release in April versus the first quarter release last year, had some tough comp. Just wondering a couple of things in games and puzzles.

First, I just wanted to clarify: did MAGIC see growth in the first quarter? Then also you had a management change in that division, so I was just wondering if you could talk about the drivers behind that change and what you expect for games and puzzles for the rest of the year.

Brian Goldner (Chairman, President, CEO):

Yes, sure. If you look at our games business, first I think really very encouraging was our strong double-digit growth in POS in that category for the first quarter. So we have really seen both in the US and around the world double-digit takeaway and growth in POS.

If you look at games within the business, we'll call it face-to-face gaming was up a bit, but MAGIC was down in the quarter. We've talked a lot; hopefully people now understand that MAGIC really is release driven, story driven, and therefore will have ups and downs that may not run seasonally as much as other brands but rather just in response to that story releases and the decks that are released.

The change at MAGIC, at Wizards of the Coast was planned some time ago. Greg had indicated a desire to go off and do some other things; and we wish him all the best.

He has done a terrific job for us. He was here in Providence and Pawtucket before going to Wizards and had run our boys business, and he has been here with us for several years.

We are very excited about Chris Cocks coming on board, and he will be with us starting in June. Not only is he a MAGIC: The Gathering player and role-playing gamer overall, but he has also got some tremendous experience, most recently at Microsoft . So has both the analog and digital capability and will continue to drive us in both directions.

Felicia Hendrix (Analyst - Barclays Capital):

Great; thanks so much. Then just finally, your quarter was obviously very strong for a lot of different reasons. Just wondering how much of that was attributable to the Easter shift.

Brian Goldner (Chairman, President, CEO):

We definitely saw a very strong Easter for us in POS. But our Easter was actually up significantly versus prior Easter. But we've seen this continued strong POS; and even after Easter this year our POS continues to be strong and double-digit POS-es across every category and every geography.

I think it goes back to something we talked about in the prepared remarks, and that is -- I think the thing that you are seeing in the first quarter that is obfuscating our otherwise very strong franchise brand results is just the payments that were made a year ago for stream content in a quarter that tends to be a bit lower in overall revenue; so it has a bigger impact.

If you take that out, our total franchise brands growth for the quarter was 9%, and you saw a double-digit growth in the US and high single-digit growth internationally for franchise brand. So again, the streaming payments made a year ago just get in the way of seeing that underlying strength. It's why you're also seeing our market shares grow all around the world.

Felicia Hendrix (Analyst - Barclays Capital):

Great, thank you so much.

Operator:

Drew Crum, Stifel.

Drew Crum (Analyst - Stifel Nicolaus):

Brian, you provided us your updated view on expectations for Star Wars, which is unchanged for the year. Can you run us through what the puts and takes are, and how you arrive at that number or that view?

Then continuing with boys, how does Spiderman fit into the Company's plans for Marvel in 2016? Thanks.

Brian Goldner (Chairman, President, CEO):

Yes. If you look at the full year for Star Wars and the calendar, clearly home entertainment has just broken for The Force Awakens. Obviously we know the kind of contribution that will make to a boys-oriented business for the next several quarters.

Then we transition in the fall toward Rogue One. Hopefully by now you've seen one of the early trailers; it's very exciting and clearly a Star Wars story that is very relevant to global fans, both new and old.

We'll transition to the Rogue One product, but of course still the classic products -- both from Force Awakens and classic original Star Wars products -- will continue to sell.

We also have a continued strong emphasis on the fan economy and fan-oriented product which continues throughout the year. You will see that reflected -- we're seeing it reflected in our business presently. That is, I think, how you would look at the calendarization of Star Wars for this year.

In terms of the Marvel business, I think the interesting thing here is we do have a movie coming up in Captain America: Civil War. Hopefully you've seen the materials there, but it is clearly a full array of all of our favorite characters from the Marvel universe.

Interestingly, the timing of the merchandising of that is a month later this year than it was a year ago. So that does have an impact on the first quarter's Marvel business as we time that. Just happens to be that the shelf set dates are a month later this year than a year ago, although the movie date is roughly the same.

And we will roll into Captain America: Civil War, which as I said, is a full array of characters including some of our favorites like the character you mentioned. Then of course we get into 2017, and we do have the

Spiderman movie.

Drew Crum (Analyst - Stifel Nicolaus):

Brian, just to go back to your last comment, are you suggesting that you were not shipping Captain America products in the first quarter?

Brian Goldner (Chairman, President, CEO):

We -- not saying we didn't ship Captain America product in the first quarter. We're just saying that the timing shifted. So it probably didn't have as big an impact as it did a year ago.

Drew Crum (Analyst - Stifel Nicolaus):

Okay; got it. Okay. Then --

Brian Goldner (Chairman, President, CEO):

Just so to frame it out, partner brand for partner brand, the puts and takes.

Drew Crum (Analyst - Stifel Nicolaus):

Yes, got it; okay. Then just one last question. Deb, on advertising can you discuss the year-on-year increase?

Typically we don't see, when you have a heavy mix towards entertainment and contribution from partner brands, the increased advertising. So I just want to understand what was driving that.

Deb Thomas (EVP, CFO):

Really, just as we look at our full-year expectations and look at rolling out our advertising, really just what you're seeing this year compared to last year is the impact of our expectations and how we're looking at funding the programs that will be running all year long against the revenue spread out over the quarters.

Drew Crum (Analyst - Stifel Nicolaus):

Okay. Thank you.

Operator:

Arpine Kocharyan.

Arpine Kocharyan (Analyst - UBS):

Could you talk a little bit about US retail takeaway in the quarter and how to think about the Easter shift? And thank you for the Easter-on-Easter comparison; that was helpful.

How to think about what Easter shift was in terms of retail takeaway and your shipment in the US of up about 28%?

Brian Goldner (Chairman, President, CEO):

Yes. If you look at -- our POS is very strong across the board in the US, up strong double digits across all categories. For toys up strong double digits; in boys, similarly; girls, preschool. And games were up double digits.

Our franchise brands in the US were up double digits in POS. And we did see very strong Easter, but we have been seeing strong week-on-week POS and, as I indicated, our strong double-digit POS has continued beyond Easter.

Arpine Kocharyan (Analyst - UBS):

Okay, thank you. Then my second question is, Brian, back in February you had said that you expected partner revenues to be closer to that 25% range, higher than historical, around 20%. Partner brands came in stronger than franchise, although there is a bit of a tough comp in entertainment licensing. But overall royalty rate was also up a tiny bit.

Could you share with us whether your guidance for full year of partner brands being still at the higher end of that 20%, 25% range and royalty rates coming down as a percentage of sales for the full year, has that guidance or expectation changed?

Brian Goldner (Chairman, President, CEO):

Yes; no, it hasn't changed. Our guidance is very much the same. In fact, if you look as a percent of revenues our royalties are only up 1/10th of a percentage point in the quarter versus a year ago, so a very small change.

The other element, as we said, the partner brands even in the first quarter where you have lower absolute revenues and the impact, were only up slightly above 25% number that we have given at the high end of the range. So again, over the four quarters we still expect it to be at the high end of the 20% to 25% range.

Arpine Kocharyan (Analyst - UBS):

That is helpful. So absent the entertainment licensing tough comp of that one-off payment, you still expect franchise brands to grow at a higher rate versus partner?

Brian Goldner (Chairman, President, CEO):

Well, I think it's very heartening -- we were looking at the numbers, and if you take the top 10 brands of our Company at this moment in the quarter, six of the top ten brands of our Company are franchise brands. And the top brand in our Company still in the first quarter is Nerf.

So I think the portfolio management the teams are executing is quite strong. It's certainly a complement of franchise brands and partner brands revenues; so the other four brands within the top 10 are partner brands.

But that is a great combination. And our strongest brand, top brand of the quarter is still Nerf. That combination allows us to continue to provide that guidance to you about royalties and about partner brands as a percentage of revenue for the year.

Arpine Kocharyan (Analyst - UBS):

Very helpful, thank you.

Operator:

Stephanie Wissink, Piper Jaffray.

Stephanie Wissink (Analyst - Piper Jaffray & Co.):

Thank you. Good morning, and congratulations to everyone there on a fantastic quarter. My question is just related to the profit growth versus the sales growth, which is a factor of threefold in this quarter.

Really outstanding.

Curious, Deb, if you can share with us how we should think about that over the next couple of quarters and the next couple of years? I think at Toy Fair you indicated your margin targets for the Q are roughly flattish.

But a couple hundred basis points of expansion in the first quarter: I'm just curious if that's changed the way you're thinking about the forward year and the next couple of years.

Deb Thomas (EVP, CFO):

No, I think based on our -- we talked a little bit about the fact that the first quarter is -- it's a lot of small numbers for us. But what we are seeing is the improvement in our margins that we did say at year end and at Toy Fair that we believe were sustainable and expandable over time, particularly as we ramp some of the new brands and gain more operating profit for it.

The one item we did want to point out was that bad debt. That was a bit unusual for us. While we won't exclude it, it was the first one that we have encountered as we have expanded, particularly into emerging markets. We do have some high-risk accounts, but we manage those very closely and do have reserves where we deem them appropriate.

But overall our margins have grown in all of our segments, with the exception of entertainment and licensing. And again that streaming revenue, because of the profitability of it, has a big impact. But we do continue to believe, based on our current estimates, that the guidance that we gave in February still holds.

Stephanie Wissink (Analyst - Piper Jaffray & Co.):

Thank you. Then just one follow-up, Deb, on the inventories. I think you mentioned excluding currency up 41% year-over-year. I'm wondering if you'd be willing to just eliminate the non-comparables for Princess. I would imagine there is some ramp inventory there for Princess.

Is it more consistent with sales if you back that out and just look at it on a comparable basis?

Deb Thomas (EVP, CFO):

Yes, I think as we look at our inventory overall you have identified a big piece of it. I mean we are really ramping up for the business we see in the year ahead.

Stephanie Wissink (Analyst - Piper Jaffray & Co.):

Thank you. Best of luck, everyone.

Brian Goldner (Chairman, President, CEO):

Yes, if you look where inventory is, Steph, it is really nicely spread and it does follow our sales curves globally. So you get about a third of the inventory increase in the US and the other two-thirds out internationally as we're growing in -- region for region.

Stephanie Wissink (Analyst - Piper Jaffray & Co.):

Thanks, Brian.

Operator:

Greg Badishkanian, Citi.

Fred Wightman (Analyst - Citigroup):

Good morning; this is actually Fred on for Greg. I was just wondering if you could guys give a little bit more color on the Disney Princess launch, how it's gone versus your expectations, and where you think we are (technical difficulty) license position?

Brian Goldner (Chairman, President, CEO):

Yes. Well, clearly I think you said one of the key words which is clearly the first quarter is a transitional quarter. We've said that all along.

Having said that, the teams have done, our teams at Hasbro , have done a fantastic job of launching the brand. Beautiful products and it's been well received by consumers, and the early takeaway is quite good.

We are ramping this business and we continue to believe that as we move forward, as we expand in revenues we'll continue to improve our operating margin over time there. So I would say that our guidance for what we want to achieve is being achieved, and we're on track for our expectations for Princess.

Fred Wightman (Analyst - Citigroup):

Great. Then if we just looked at Star Wars, is there anything that you guys learned from last year's movie that you're planning to implement for this coming year's release?

Brian Goldner (Chairman, President, CEO):

Clearly it was great for us to be able to have a major entertainment initiative in the fourth quarter. It's great to be able to spread out the entertainment initiatives across our portfolio now almost 12 months a year, and that will continue to be the case as we have more and more partners and our own brands launching new story-led initiatives throughout each year.

The consumer certainly responded in kind, and it gives us great courage to look at new windows for new launches. We will track similar to last year, a similar tempo and template this year, as we have a fall set date for Rogue One product and that will roll into a holiday-oriented movie.

But again the teams are constantly picking up on new insights, and we're using those to the advantage of customers and consumers.

Fred Wightman (Analyst - Citigroup):

Great, thanks.

Operator:

Taposh Bari.

Taposh Bari (Analyst - Goldman Sachs):

Congrats on another great quarter. Brian, on girls, can you help us better understand how the segment performed excluding the Disney Princess piece? Then as a follow-up to that, how do we think about the transition of that property into your business? Should we think of 1Q as a disproportionate beneficiary, given the fact that it represents the initial shipping window for that property?

Brian Goldner (Chairman, President, CEO):

Well, if you look at it clearly in a quarter where typically lower revenues it does have a disproportional impact. As you grow throughout the year your revenues grow across the board.

We had a number of our girls brands that performed well and grew in the quarter. We saw some great growth from some of what we would call our challenger brands, including FurReal Friends, Baby Alive, and Easy Bake.

Then My Little Pony, as I said, the brand overall was up. The only place that had an impact where it flattens the result is because of the streaming revenues that are assigned to the purchase of My Little Pony programming and Littlest Pet Shop programming a year ago.

We had one brand in there that we're restaging for the fall, which is Nerf Rebelle. Clearly the brand is down at this moment as we restage and get reoriented around that brand for the second half of the year.

Again, Pet Shop had very strong results in several territories including the US and Canada. We are beginning to make the shift, the change in evolution of that brand out internationally, and over time we would expect that brand to see more positive momentum overall.

Taposh Bari (Analyst - Goldman Sachs):

Great. On games I just want to make sure I understand the comment that you made. So shipments were flat in constant currency, but POS was up double digits; did I hear that correctly?

Brian Goldner (Chairman, President, CEO):

It is. Strong double digits, yes.

Taposh Bari (Analyst - Goldman Sachs):

Okay. So is that gap entirely attributable to the MAGIC shift into 2Q then?

Brian Goldner (Chairman, President, CEO):

No, I don't -- we had lots of puts and takes. We have of lots of interesting and different brands that were up in the quarter. A segment -- like a lot of the brands within our family-oriented segment were up, including Life and Yahtzee and several other brands. Obviously Pie Face continues to be a strong contributor. Duel Masters within the Yahtzee business was up.

As I said, overall face-to-face gaming was up a bit in the quarter. And I do think you have -- are coming off of a very strong fourth quarter; you still have product in the market and very strong POS both in the US and internationally for games.

Taposh Bari (Analyst - Goldman Sachs):

Understood. One last one for you, Brian, if you can comment on the health of the toy category as we enter 2016. Again the category has been relatively flat for a while and seems to be going through this revival.

What are you hearing from your retailers, both brick-and-mortar and online? Are they believers in the sustainability? Are they dedicating more resources to the category? Thanks.

Brian Goldner (Chairman, President, CEO):

Well, I would say yes to really everything you've said. Well, remember that last year we had a very robust growth in US and globally developed economies as well as emerging markets in the toy industry. So I would say this is the second year of strong growth year to date.

We are seeing high single-digit growth rates both in developed economies like the US and also throughout Europe. Retailers are very excited about the category as we continue to have more story-driven brands, more integrated play brands, and more innovation in the category.

Overall POS was very strong, as I said. But as we have noted before, online POS was even stronger and many additional retailers that have been historically brick retailers are doing a very good job in omnichannel, and so we saw great growth for several online retailers both pureplay as well as omnichannel retailers.

So I would say overall the state of the industry is quite strong. And our indications are, from projections, that it will remain strong for the next several years.

Taposh Bari (Analyst - Goldman Sachs):

Great. Thanks so much and best of luck.

Operator:

Jaime Katz.

Jaime Katz (Analyst - Morningstar):

Can you guys discuss whether there were any pockets of excess inventory outside of Equestria Girls? I know you were filling the channel for a lot of products, but that seemed to be the only product that was called out as maybe not performing exactly how you had expected.

Brian Goldner (Chairman, President, CEO):

Yes, as I mentioned Nerf Rebelle -- clearly we're restaging that part of the Nerf brand; had some inventory carried over, and we're restaging it for the second half. We've had a great response from global retailers to the new lineup of Nerf Rebelle products for the second half of the year and our expectation is the brand should sell through some remaining inventory in the first half.

But I would say those are really the two brands. The only other one, and I almost -- we have talked about this over a number of calls -- is Furby. We do have some remaining Furby -- last, hopefully, quarter of Furby headwinds, if you will. We are selling out some remaining Furby up against a year ago.

Jaime Katz (Analyst - Morningstar):

Okay. Then I know you guys talked a little bit about bad debts. But I'm curious on a more regional level what you guys are seeing out of Brazil, which had historically been a decent growth business; and then whether or not Mexico is helping to offset that at all.

Brian Goldner (Chairman, President, CEO):

Well, Brazil continues to be strong growth. It just -- obviously you're having a currency impact. So absent FX Brazil the underlying growth in Brazil, our brands in Brazil are performing quite strongly.

Clearly we are seeing growth in regions like Mexico. But I don't know, Deb, you want to comment on the currency environment?

Deb Thomas (EVP, CFO):

Our business continues to be good. As of late the real has done a bit better, as all currencies have.

We did say in our prepared remarks, particularly if the euro holds up the way it's trading right now, that will have a positive impact on our expectations for foreign exchange impact to us for the full year. But we continue to see the market in Brazil being good and consumer takeaway being good as well.

Jaime Katz (Analyst - Morningstar):

Excellent, thank you.

Operator:

Tim Conder, Wells Fargo .

Tim Conder (Analyst - Wells Fargo Securities, LLC):

Congratulations also again on the ongoing great execution, everyone. Just a couple of items. Staying on the currency, Deb, and just following on a few of those related questions, a little more color. You said if rates stay where they are; you talked about the $100 million, referenced that, and that it would be substantially better. Any more color on the revenue, operating profits? Again assuming rates say where they are today.

Did you guys put it on any additional hedging in Q1 that may be benefiting that now that rates have moved?

Deb Thomas (EVP, CFO):

We hedge throughout the year, so we probably did put some hedges on in the first quarter. Overall from a hedging standpoint we hedged about 75% of our product cost last year; and we are about hedged the same amount this year. We always try to make sure we stay in a similar level.

It's hard to tell where rates are going to go. I think if you look at what all of the experts are saying, they expect the dollar to strengthen. However, we're not seeing that, particularly against the euro right now.

So if rates stay the way they are -- we did put a chart in our earnings presentation so you could see the makeup of our revenues by currency in the first quarter. Depending on what your expectations are for FX rates, we can just kind of look at it that way. But we are hitting the point where we are getting comparable FX rates to last year in certain regions.

Tim Conder (Analyst - Wells Fargo Securities, LLC):

Okay. I guess from a color standpoint, are you talking $10 million, $20 million difference versus that $100 million that you talked about in February?

Deb Thomas (EVP, CFO):

Well, we have got $30 million almost already in. So as you look at the rest of the year, I mean if the euro continues to stay strong -- it's actually trading above levels it was trading at last year, so that could significantly change our expectations for the year. But again, it's just too early to tell.

Tim Conder (Analyst - Wells Fargo Securities, LLC):

Okay, okay. Then any color, Brian, Deb, that you feel comfortable giving -- I know part of it is sensitive with a specific streaming contract -- but as far as the swing factor, the streaming contract and Transformers together, how it impacted entertainment licensing. Was that the majority of the swing there? Can we just take it as all of it? Or any additional color you could break down.

Brian Goldner (Chairman, President, CEO):

It was I think between the two -- between the fact that we're coming off -- remember, we've said before that when we do licenses we get paid the following quarter. So obviously in first quarter of 2015 we were collecting royalties for fourth-quarter 2014 in Transformers.

Then of course we had the streaming deal. I think both are exacerbated by the fact that you're dealing in a typically lower revenue quarter, so more of an impact in percentage terms.

You're right. I think that is the bulk of the change.

Tim Conder (Analyst - Wells Fargo Securities, LLC):

Okay, okay. Then any -- back to the bad debt. Again, you said your POS is good in several areas. What -- can you give us any color as to where the majority of a retailer is concentrated, where that bad debt was, or where you are seeing maybe some retailers, not the consumer, have some issues?

Deb Thomas (EVP, CFO):

Particularly where we're seeing some impact to certain retailers is in our emerging markets. I did already comment that Brazil continues to be a strong market for us right now and do well. So other markets not in -- not Brazil.

Brian Goldner (Chairman, President, CEO):

The other thing I would like to just note, because we do have some big retailers: we're not talking about the big retailers that have represented significant partners for us and growth engines for us in those areas. So Detsky Mir in Russia, PB Kids, Ri Happy in Brazil. Both are very strong, continue to be strong retailers.

We're really talking about some retailers that were not among our top retailers, but clearly retailers we've been selling to.

Tim Conder (Analyst - Wells Fargo Securities, LLC):

Very helpful. Lastly, Brian, China. It would appear that that's been a -- continues to be a pretty good growth driver for you. Correct me if I am wrong there.

Then just especially your e-commerce outlook in China and how that is trending over the last 12 months, 18 months, whatever period here. And then how you see that growth curve here over the balance of 2016.

Brian Goldner (Chairman, President, CEO):

Well clearly, e-com in China is one of the key themes for future growth. Even though we are getting growth today I think future growth is even stronger as we orient our Company and our business to e-com globally but also particularly in China.

It is a great disintermediary for that market; allows us to get to the vast majority of consumers; and it's an area of focus for us. China has shown some good growth.

But remember, our Asia-Pacific business overall showed good growth, so beyond China, which is quite heartening to see, country for country. In Korea some great growth and Southeast Asia as well as our Australia and New Zealand business.

So China continues to be both a short and long-term opportunity for us. We do have a great array of brands that are beloved in China, and particularly brands like Transformers, and we continue to build the business. But I think e-com is one of the focuses for our Company globally and also a specific e-com focus in China.

Tim Conder (Analyst - Wells Fargo Securities, LLC):

Great. Thank you all, as always.

Operator:

Lee Giordano, Sterne Agee.

Lee Giordano (Analyst - Sterne Agee CRT):

Deb, just to clarify on the tax rate, it looks like it came in around 21%. Should we still continue to look for 26.5% or 27% for the remainder of the year?

Deb Thomas (EVP, CFO):

Yes, the adjustments that got us down to that 21%, which is discrete items -- and our underlying tax rate we still -- is in the range of 26.5% to 27% that we talked about at year-end.

Lee Giordano (Analyst - Sterne Agee CRT):

Great, thanks. Then just secondly, following up on My Little Pony, what does the entertainment schedule look like this year and next? And how do you view that brand going forward? Thanks.

Brian Goldner (Chairman, President, CEO):

My Little Pony's next season is just launching now and rolling out around the world. It's the sixth season for the brand. The theme this year is all about exploring Equestria, and it ties together with lots of the initiatives that we have across the Company.

We have very robust plans in multi-categories for My Little Pony throughout this year, brand-new toys and games products, but also I've seen some really wonderful product in our consumer products licensing business and apparel that is out internationally in the UK. Very strong results in several categories of product setting all around the world in tune with that theme.

That will roll into 2017, and then as you know for fall of 2017, November, we have our first animated feature film that will be distributed by Lionsgate in the My Little Pony movie. So we'll have television entertainment, streaming entertainment, across a number of different over-the-top providers. Kids can find entertainment in both short-form and long-form, and then they can also find entertainment on digital games with some new digital games that will launch, including one new My Little Pony digital game launching from Backflip Studios. We continue to have a game from Gameloft (technical difficulty) throughout the year.

So storytelling across a number of different dimensions and continue to feel very good about the brand and, as I'd mentioned, the new Equestria Girls line and launches going off quite well with the new mini-doll segment.

Lee Giordano (Analyst - Sterne Agee CRT):

Great, thank you.

Operator:

Eric Handler.

Eric Handler (Analyst - MKM Partners):

Forgive me if you've already gone through this, but your US and Canada business you had great revenue growth, 28%. The margin increased but not as much as revenue growth. I'm just curious: What expense items particularly of note were there that drove the margin below your revenue growth?

Then secondly, looking at Star Wars, was POS consistent through the quarter? Or was there a big shipment that occurred just prior to the home entertainment release?

Brian Goldner (Chairman, President, CEO):

First of all the operating profit in the US business increased 89%. The revenues were up 28%; operating profit was up 89%. And I am not sure --

Eric Handler (Analyst - MKM Partners):

Okay, sorry. Yes.

Brian Goldner (Chairman, President, CEO):

Yes, the operating profit margin in the quarter was 17.7% up against 12% a year ago. So I just want to make sure we're talking about the same number.

Eric Handler (Analyst - MKM Partners):

Right. Yes. No, sorry; I misspoke there. What was it that essentially allowed you to get that margin up 570 basis points?

Brian Goldner (Chairman, President, CEO):

Yes, well, it's obviously the revenue increases and a great portfolio of franchise growth as well as partner growth. Again, I mentioned that the top 10 brands of our Company we have size of our seven franchise brands and then some partner brands.

It's that blend that should allow you to understand how we intend to improve operating margins over time, how our partner brands will remain at the top end of the 20% to 25% of revenues, and why royalties should be roughly in line with our guidance for the year.

Eric Handler (Analyst - MKM Partners):

Okay. And then Star Wars?

Brian Goldner (Chairman, President, CEO):

Star Wars. No, we have been shipping Star Wars throughout. We came off of a very strong movie, remember? The movie has continued to play in theaters, so we continued to ship product as more and more people saw the movie.

Then of course there are all kinds of initiatives around the home entertainment windows. But those will continue. So I wouldn't say that there was any one pulse of inventory into the market but rather very strong sellthrough throughout.

Eric Handler (Analyst - MKM Partners):

Great, thank you.

Operator:

Jim Chartier, Monness, Crespi.

Jim Chartier (Analyst - Monness, Crespi, Hardt & Co.):

First question on Yo-kai Watch now that you've had a couple of months with the product in the market. I just want to get your updated thoughts there on both the US and other markets, how it's being received.

Then secondly on Star Wars, Rogue One looks like it has another female lead, so just curious how the female business for Star Wars is doing versus prior years, and if you think that is an opportunity going forward. Thank you.

Brian Goldner (Chairman, President, CEO):

Yo-kai is only in its first couple of months, as you correctly indicate, and really rolling out around the world in entertainment. So we've really only seen entertainment in the US, and it will be going into international markets throughout the year. Early indications are quite good, but it's still very early days.

Rogue One is exciting for everyone. I think we continue to offer an array of products for all Star Wars fans of all ages and genders and affiliations. You will see us continue to focus on product for everyone, and product has been well received by everyone.

Again, I think what you're seeing overall is a blending of such more historical delineation that we are really not focusing on or fostering; we're just making great products. We love the characters of these movies, and we're very excited about where Star Wars is going.

We also saw in the first quarter great sales of light sabers. And I think light sabers are going to everyone, because everybody can be a Jedi.

Jim Chartier (Analyst - Monness, Crespi, Hardt & Co.):

Great. Thanks and best of luck.

Operator:

Gerrick Johnson.

Gerrick Johnson (Analyst - BMO Capital Markets):

Do you guys have a street date for Rogue One? Will there be a Rogue Friday?

Brian Goldner (Chairman, President, CEO):

I can only say, at this point, fall. I don't think they've announced a street date.

Gerrick Johnson (Analyst - BMO Capital Markets):

Okay. Do you have the actual number for the bad debt expense?

Deb Thomas (EVP, CFO):

We talked about the one particular charge we took. It was $13.8 million.

Gerrick Johnson (Analyst - BMO Capital Markets):

Okay. Also, your franchise brands up 1% in the quarter. But I thought I heard on the call you say 9%. What was the 9% number in relation to?

Brian Goldner (Chairman, President, CEO):

Yes. Well, it was trying to get across the fact that if you look at actual sales of our toys and games around the world our franchise brands were up 9%. And a brand like My Little Pony was up 12%.

Just again, given the typically smaller revenue quarter and the impact of the streaming deal, if you really look at the underlying consumer orientation of the brands and how it's performing, they're performing quite strongly.

Gerrick Johnson (Analyst - BMO Capital Markets):

Okay, I get it. Ex- the streaming deal. Lastly, in the past couple quarters you've talked about My Little Pony performance in terms of core. I didn't hear that word this time, core.

You said it did grow in the US. Was that core, or was that in totality?

Brian Goldner (Chairman, President, CEO):

Well, it's a combination because we had have also Equestria Girls. So it's the combination of all the elements.

Gerrick Johnson (Analyst - BMO Capital Markets):

Okay, great. Thank you.

Operator:

Thank you. At this time I will turn the floor back to Debbie Hancock for closing remarks.

Debbie Hancock (VP IR):

Thank you, Rob, and thank you, everyone, for joining our call today. The replay will be available at our website in approximately two hours. Additionally, management's prepared remarks will be posted on our website following this call.

Our second-quarter 2016 earnings release is tentatively scheduled for Monday, July 18. Thank you.

Operator:

Thank you. This concludes today's teleconference.