MORGAN-DEMPSEY
CAPITAL MANAGEMENT, LLC

Hasbro (HAS): Initiate Position 1.25% **May 2023**

Corporate Profile

Hasbro is a global branded entertainment leader whose mission is to entertain and connect generations of fans through the wonder of storytelling and exhilaration of play. Hasbro delivers engaging brand experiences for global audiences through gaming, consumer products and entertainment, with a portfolio of iconic brands including MAGIC: THE GATHERING, DUNGEONS & DRAGONS, Hasbro Gaming, NERF, TRANSFORMERS, PLAY-DOH and PEPPA PIG, as well as premier partner brands.

Investment Thesis

Hasbro is in the process of modifying its brand strategy after the untimely death of its Chairman and CEO Brian Goldner in late October 2021. CEO Goldner's Brand Blueprint placed brands at the core of the company. The Blueprint began with toy and game product innovation and expanded it into numerous distribution channels including movies, television, online media, digital gaming, publishing and location-based entertainment. Chris Cocks, former President and CEO of Hasbro's Wizards of the Coast and Digital Gaming Division, was appointed CEO in January 2022. He introduced "Blueprint 2.0 "at Hasbro's October 2022 Investor Day and has continued to fine tune it over time. Blueprint 2.0's objectives are to:

- Engage consumers across games, play and experiences
- Enhance Hasbro's gaming leadership
- Focus on Fewer, Bigger Brands with a focus on Magic: The Gathering, Dungeons & Dragons, Nerf, Peppa Pig, Play-Doh, Hasbro Gaming, and Transformers
- Increase direct to consumer sales and the licensing of underutilized and/or dormant intellectual property

Management has expressed a willingness to exit profitable categories and partnerships if they don't fit into its long-term objectives and is willing to license Intellectual Property in order to more effectively monetize the approximately 1,500 dormant items/brands in the "Hasbro Vault".

This focus on fewer brands is accompanied by an increase in data gathering and analytics using its "Brand Insights Platform" to better understand consumer desires and expectations. This provides management with valuable insights as the company develops new products across ages (Preschool to Adult) and delivery methods (tabletop games/video games/collectibles). This has the potential to expand the company's largest and highest quality brands at an accelerated pace.

One final item is the fate of E-One, the media company purchased by Hasbro at the end of June 2021. CEO Cocks has expressed an interest in selling the remaining parts of E-One that are not directly associated with the development of content based on Hasbro IP. While we like Hasbro's desire to control the media produced around its IP and see potential value in the sale of the non-Hasbro pieces, it may be difficult to separate the operations. Management noted it was pleased by the progress that it is making towards selling the non-core E-One assets and expects to use the proceeds to reduce debt.

We believe that management's willingness to actively manage the brand portfolio with its focus on prioritizing the largest, most profitable ones, greater gathering and use of customer data, desire to develop products for all age groups and delivery method (particularly the high margin direct sales channels) and its ongoing development of media around its successful toys and games make this an interesting time to invest in the company. While the fate of E-One is still in flux, we believe that it will remain an important part of the Hasbro story.

Positive Attributes

- Hasbro is taking an "inverse Disney" approach by creating media product from Toy/Game IP instead of developing product off of media. This is an interesting approach that should help to not only produce successful TV and Movies but also increase sales of the toys/games associated with the media product (creating media from known brands and products).
- Hasbro's intention to continue to reduce debt and improve balance sheet is a positive.
- Growth of direct-to-consumer sales should improve margins and enhance Hasbro's knowledge of its end consumers.
- **Financial**
    - Hasbro' Operational Excellence program achieved $35 million of cost savings during Q1 23. Management expects $150 million of run rate gross cost savings for the full year and up to $300 million of cost savings by 2025.
    - First quarter operating cash flow came in less than $100 million but have guided for $600 – $700 million of operating cash flow for 2023.
- Focusing on increasing appeal of current (and past) products to a multigenerational audience (pre-school to AARP eligible) should help to increase the life and relevance of its products.
- Significant film and TV launches both from partners and internally during 2023 have the potential to provide significant catalysts for the company's business.
- Dungeons and Dragons: Honor Among Thieves, an important media property released at the end of March 2023, had a strong showing at the box office, grossing over $200 million. The movie's success has the potential to increase interest in Dungeons and Dragons as well as spur the sale of merchandise based on the characters.
- Hasbro is trying to increase the user base of its largest brand, Magic: The Gathering, through its Universes Beyond strategy that introduces existing fantasy realms into the brand. The Lord of the Rings: Tales of Middle Earth set, which launches in late Q2, already has one of the most successful pre-orders in the history of the company.
- Management remains committed to maintaining relationships with important external partners such as Disney (Marvel, Star Wars) and Sony (Transformers).
- Hasbro has entered into a multi-year licensing agreements with Mattel to create co-branded toys and games including a Barbie branded Monopoly game and Transformer branded Hot Wheels vehicles.
- Management depth has been improved by the April additions of Tom Kilpin as President, Toy, Licensing & Entertainment, Gina Goetter as Chief Financial Officer, Jason Bunge as Chief Marketing Officer, and Roberta Thomson as Chief Communications Officer.
    - Mr. Kilpin brings extensive experience in the consumer products industry including stints as the leader of Activision Blizzard's Consumer Products, Chief Commercial Officer for Mattel, and as executive Vice President, Franchise Management for Walt Disney Company.
    - Ms. Goetter brings over 25 years of experience in finance and accounting with a record of driving strong financial and operational results. She joins Hasbro from Harley-Davidson, where she served as Chief Financial Officer from 2020. Prior to her time at Harley, Ms. Goetter was Senior Vice President of Finance for Tyson Foods' Prepared Foods Segment after spending 21 years at General Mills in numerous Finance roles.
    - Mr. Bunge brings more than 20 years of marketing experience to Hasbro, with a focus on gaming and technology services. Most recently, he served as the first Chief Marketing Officer of Riot games, the developer and publisher best known for League of Legends. He also served as SVP of Brand Management and Marketing for Electronic Arts, where he was responsible for more than 20 global brands across console, PC, mobile, and live services.

- Ms. Thomson brings almost 20 years of experience in brand building and financial communications to Hasbro. She led the Product Communications and Corporate Communications at Meta for seven years. She joins Hasbro from Notion, the collaboration software company, where she served as Chief Brand and Communications Creative Officer and built a team focused on brand design and storytelling.

Investment Risk(s)

- Hasbro could harm its largest brand, Magic: The Gathering, by overproducing card sets, particularly if the economic environment weakens. The decision to reprint iconic older cards also has the potential to alienate collectors, an important constituency of Magic.
- The unexpected death of CEO Brian Golder in October 2021 was a blow to the company. It remains to be seen if Chris Cocks, the former head of the Wizards of the Coast division, can reinvigorate the company with his "Blueprint 2.0".
- The company built up inventory over the last half of 2022 due to difficulties accessing products over the last two years. The company is still carrying excess inventory whose liquidation could negatively impact margins.
- The company's digital strategy, including traditional video games as well as online versions of Magic, Dungeons and Dragons, and traditional table-top board games may be unsuccessful.
- Q1, while seasonally a less important period of the year, met expectations but was weak on a year-over-year basis particularly in terms of cash flow. While there were some mitigating factors, It may be difficult for the company to meet its 2023 cash flow goals – important for maintaining the dividend.
- The company's greater exposure to digital, video games and media potentially makes it less recession resistant than it has been in the past.

Current & Historical Valuations

Valuation Matric	Current	5-Year High	5-Year Low	Average	Vs. Industry
Price to Earnings (P/E)	69.2	70.2	10.2	37.6	6x
Forward PE	13	25.3	9.2	18.1	1x
Price to Book Value	3	9.7	1.9	5	1.4x
Price to Sales (P/S)	1.5	3.5	1.1	2.2	1.8x
Price to Cash Flow	25.3	29.8	8.4	17.1	2.4x
Dividend Yield	4.7%	6.5%	2.0%	3.1%	2.7x

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