

Hasbro

4Q23 Recap: Consumer Products turnaround taking time

Reiterate Rating: NEUTRAL | PO: 51.00 USD | Price: 49.07 USD

EPS miss driven by Consumer Products decline

Hasbro (HAS) reported 4Q results of 23.2% YoY revenue decline, compared to BofAe -18.3% and consensus -19.1%. 4Q EPS of \$0.40 was below our expectation of \$0.65 and consensus of \$0.64. The Wizards segment experienced 7.1% growth (vs. BofAe 3.3%) behind continued strength of Baldur's Gate III and Monopoly Go. The Consumer Products (CP) revenue declined 25% vs. BofAe -17.2%. Full year POS was down mid-single digits when adjusted for exited licenses. In CP, revenue was impacted by business exits, category trends and inventory management. For 2023, Wizards operating margin contracted 456bp to 36.1% due to higher royalty costs associated with Universes Beyond, and CP operating margin contracted 830bp to -0.7% due to lower revenues and inventory reduction. HAS completed its eOne sale to Lionsgate at the end of 2023.

2024 guidance set below Street on revenue decline

HAS provided its outlook for 2024. The company expects CP revenue down 7-12% with 4-6% operating margin, which is 500-700bp better than 2023. 400bp of improvement is driven by the lap of non-recurring inventory charges. Wizards revenue is expected to be down 3-5%, and operating margin will be between 38-40%. Pro-forma Entertainment is expected to have revenue down \$15mn and operating margin of 60%. A 3% inflation rate is embedded in the guide, with labor being the biggest inflation driver. EBITDA is expected to be between \$925mn and \$1.00bn vs. Street \$1.02bn.

Lowering PO and estimates on tough industry year

Given the earnings miss, we're lowering our '24/25 EPS by 20/17% and introducing 2026 estimates. We're also lowering our PO from \$53 to \$51 based on 15x '25 P/E (14x '24 prior) to reflect peer multiple expansion. We reiterate our Neutral rating as we expect continued weakness in CP until turnaround efforts take hold. We expect 2024 will be a tougher-than-average year for the toy industry given fewer "toyetic" movies after a backlog of pandemic-delayed movies released in 2023. Results from the Wizards segment have been strong, but now HAS will need to lap its successful Lord of the Rings Magic set and Baldur's Gate which will be partly offset by Monopoly Go.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.45	2.51	3.03	3.31	3.49
GAAP EPS	1.46	(10.73)	3.03	3.31	3.49
EPS Change (YoY)	-14.9%	-43.6%	20.7%	9.2%	5.4%
Consensus EPS (Bloomberg)			3.71	4.23	5.11
DPS	2.77	2.79	2.80	2.80	2.80
Valuation (Dec)					
P/E	11.0x	19.5x	16.2x	14.8x	14.1x
GAAP P/E	33.6x	NM	16.2x	14.8x	14.1x
Dividend Yield	5.7%	5.7%	5.7%	5.7%	5.7%
EV / EBITDA*	8.8x	14.6x	10.6x	10.1x	9.8x
Free Cash Flow Yield*	2.9%	7.6%	2.9%	6.8%	7.2%

* For full definitions of *IQmethod*SM measures, see page 5.

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	53.00	51.00
2024E Rev (m)	5,230.0	4,110.3
2025E Rev (m)	5,333.5	4,204.5
2026E Rev (m)	NA	4,301.0
2024E EPS	3.79	3.03
2025E EPS	4.00	3.31
2026E EPS	NA	3.49

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Stock Data

Price	49.07 USD
Price Objective	51.00 USD
Date Established	13-Feb-2024
Investment Opinion	B-2-7
52-Week Range	42.66 USD - 73.58 USD
Mrkt Val (mn) / Shares Out (mn)	6,809 USD / 138.8
Free Float	93.9%
Average Daily Value (mn)	77.84 USD
BofA Ticker / Exchange	HAS / NAS
Bloomberg / Reuters	HAS US / HAS.OQ
ROE (2024E)	36.9%
Net Dbt to Eqty (Dec-2023A)	268.7%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

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iQprofileSM Hasbro

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.7%	6.9%	11.2%	11.7%	12.0%
Return on Equity	20.9%	17.7%	36.9%	36.9%	36.4%
Operating Margin	15.8%	9.5%	18.1%	18.9%	19.2%
Free Cash Flow	199	516	194	465	490

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	2.1x	1.0x	1.5x	1.5x
Asset Replacement Ratio	0.9x	-0.4x	1.1x	1.1x	1.1x
Tax Rate	20.4%	NM	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	120.7%	268.7%	253.7%	240.1%	221.8%
Interest Cover	5.4x	2.6x	4.6x	4.9x	5.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,857	5,003	4,110	4,204	4,301
% Change	-8.8%	-14.6%	-17.8%	2.3%	2.3%
Gross Profit	3,960	3,297	2,302	2,371	2,443
% Change	-11.9%	-16.7%	-30.2%	3.0%	3.0%
EBITDA	1,173	709	974	1,025	1,059
% Change	-10.5%	-39.5%	37.4%	5.2%	3.3%
Net Interest & Other Income	(146)	(170)	(183)	(183)	(183)
Net Income (Adjusted)	618	349	425	464	490
% Change	-14.6%	-43.6%	22.0%	9.0%	5.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	618	349	425	464	490
Depreciation & Amortization	788	0	292	292	292
Change in Working Capital	(878)	0	(298)	(66)	(66)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(156)	377	0	0	0
Capital Expenditure	(174)	(209)	(225)	(225)	(225)
Free Cash Flow	199	516	194	465	490
% Change	-71.0%	159.8%	-62.4%	139.4%	5.5%
Share / Issue Repurchase	(125)	0	0	(100)	(100)
Cost of Dividends Paid	(385)	(388)	(393)	(393)	(393)
Change in Debt	(61)	(399)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	513	545	367	358	376
Trade Receivables	1,132	1,029	957	979	1,002
Other Current Assets	1,354	749	818	832	847
Property, Plant & Equipment	423	489	564	639	714
Other Non-Current Assets	5,874	3,729	3,729	3,729	3,729
Total Assets	9,296	6,541	6,434	6,537	6,667
Short-Term Debt	256	500	500	500	500
Other Current Liabilities	1,934	1,556	1,315	1,345	1,376
Long-Term Debt	3,711	2,966	2,966	2,966	2,966
Other Non-Current Liabilities	533	432	432	432	432
Total Liabilities	6,434	5,454	5,213	5,243	5,274
Total Equity	2,862	1,087	1,221	1,294	1,393
Total Equity & Liabilities	9,296	6,541	6,434	6,537	6,667

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Hardlines

Company Description

Hasbro is a global play and entertainment company that delivers immersive brand experiences through its three segments: (1) Consumer Products, (2) Wizards of the Coast and (3) Entertainment. Consumer Products sells toys and games. Wizards of the Coast sells trading card, role-playing and digital games including Magic: The Gathering and Dungeons & Dragons. Entertainment produces and distributes film and TV content.

Investment Rationale

Hasbro has a long track record of successfully developing content and brands that engage kids, their parents, and fans of all ages. While the company has had a number of successes, its performance remains mixed across brands, and its self-help story, while compelling, will take time to play out.

Stock Data

Average Daily Volume 1,586,326

Quarterly Earnings Estimates

	2023	2024
Q1	0.01A	0.45E
Q2	0.49A	0.66E
Q3	1.64A	1.05E
Q4	0.37A	0.87E



Price objective basis & risk

Hasbro (HAS)

Our \$51 PO is based on 15x '24E P/E, in-line with its toy company comp set average which we think is fair given similar growth prospects.

Upside risks to our PO are a better-than-expected content lineup driving toy demand, upside from successful Magic: The Gathering and other releases in Hasbro's Wizards of the Coast and Digital Gaming segment, and lower input costs.

Downside risks to our PO are a prolonged downturn in consumer spending, share losses to video games or other competing products, weak fan engagement with Hasbro's brands, fading appetite for Magic releases, poor performance of a key customer, and higher input costs.

Analyst Certification

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US - Retail Hardline Coverage Cluster

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	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L. Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc.	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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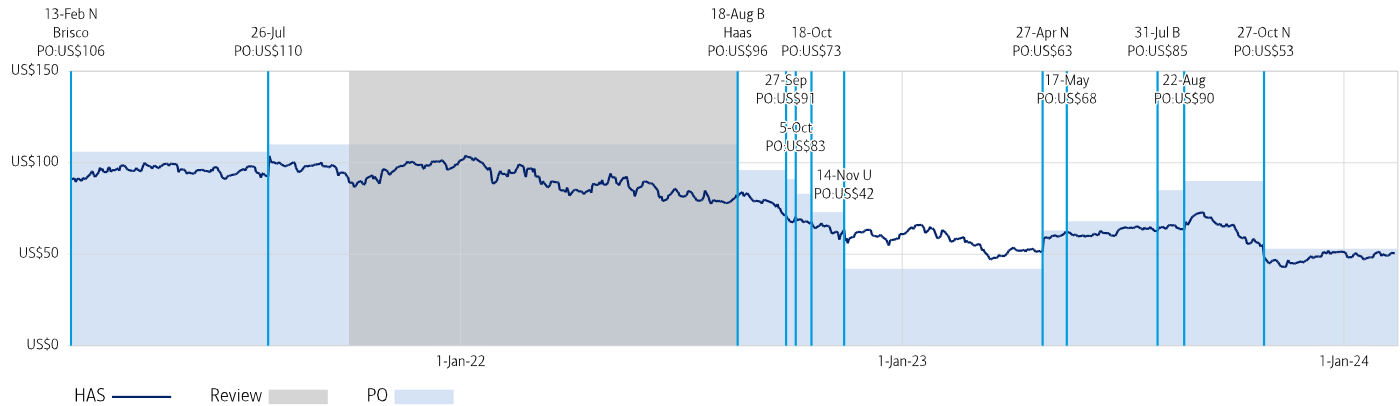
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Hasbro (HAS) Price Chart



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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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