HASBRO, INC.[1]

Introduction

This report takes a close look at Hasbro, tracing its journey from the beginning to its position in the market today. It outlines the factors behind Hasbro's success and the significant challenges the company is facing. The report also raises questions to better understand Hasbro's strengths and weaknesses, especially in financial terms, and explores important areas like how the company manages its business and investments.

1. History

In 1923, three brothers from a Polish-Jewish background, Herman, Hilal, and Henry Hassenfeld, started a company in Providence, Rhode Island, selling fabrics. Their business, Hassenfeld Brothers, grew to include school supplies before turning to toy making in 1942. They hit it big with Mr. Potato Head in 1952, and by 1968, they'd shortened their name to Hasbro Industries. During the Vietnam War 1969, they made their G.I. Joe toys less "war-like". The 70s had ups and downs, and they lost money by 1977. But from 1978 to 1981, Stephen Hassenfeld guided them to focus on affordable toys that lasted longer. They brought back G.I. Joe in 1982 and launched the hit Transformers in 1984, which helped Hasbro become a top toy maker by the mid-80s. They bought parts of Coleco, an American company famous for Cabbage Patch Kids, in 1988 and then the whole company in 1989, boosting international sales significantly. The 90s saw more acquisitions, including Tonka in 1991 and Wizards of the Coast in 1999, and they also tried expanding into digital games with Hasbro Interactive in 1995.

The 2000s were tough for Hasbro. In the fourth quarter of 2003, Hasbro ceased manufacturing at Valencia/Spain facility among others, because of changes in the global marketplace for the products and to take advantage of cost efficiencies through sourcing of the products using lower-cost production alternatives, meaning China. The tech bubble burst, people spent less on toys, and Hasbro's digital efforts fell flat. Video games became the new trend, causing Hasbro to struggle. They had to make some tough calls, like layoffs in 2012 and 2013, but kept pushing forward with new media deals, including a partnership with Universal Pictures in 2008 and the creation of Hasbro Studios in 2009. The launch of the Hub Network with Discovery in 2010 was a hit, thanks to shows like My Little Pony. In 2015, they started selling Disney Princess dolls.

In 2017, Hasbro tried to buy Mattel but got turned down. They bought the media company Entertainment One (eOne) in 2019 for 4 billion dollars to boost their entertainment offerings. Recently, Hasbro decided to sell eOne to focus more on big-name properties like Peppa Pig and Transformers, aiming to become a leader in digital gaming. Now, Lionsgate is set to purchase eOne's TV and movie units for $500 million.

[1] Case written by Gülce İlter, supervised by Luz Parrondo, Senior Lecturer UPF at Barcelona School of Management, 2023.

2. Industry analysis and competitors

Hasbro operates in a vibrant and competitive global toy industry, where it competes with a variety of strong, innovative companies with rich histories and diverse product lines.

Toy Industry

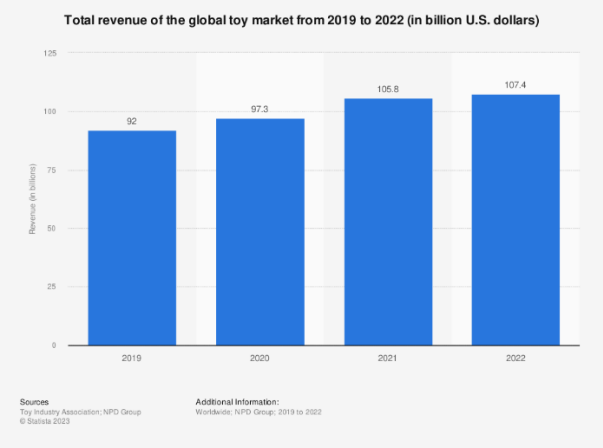


Figure 1: Total revenue of the global toy market 2019 to 2020

On the chart (Figure 1), there is a noticeable upward trend in the revenue over these four years. The market has grown from $92 billion in 2019 to $107.4 billion in 2022. This upward trend indicates a growing market, with increases each year despite the disruptions caused by the COVID-19 pandemic. (Toy Industry Association, 2023) Despite the pandemic, the toy market saw an increase in sales, likely because people were purchasing more toys and games during lockdowns. But still, the growth rates of the market are not impressive and thus, it is a very competitive market.

SWOT Analysis[2]

Strengths	**Weaknesses**
• Broad range of toy producers and brands. • Retail diversity: physical stores and online platforms, retail and wholesale… • Innovation capacity from design to manufacturing. • Access to effective marketing channels especially through children's media.	• Market dominance by established products and brands make it hard to enter. • Forecasting is hard, leading to stock surplus or shortages. • Seasonal demand spikes logistical challenges with storage and staffing.
Opportunities	**Threats**
• Increasing demand for non-digital play options from parents. • Advancements and innovations in electronics enhancing toy features.	• Growing consumer concern over plastic use and sustainability, fueling environmental worries.

[2] (Srivastava & Mehta, 2021)

• Newly emerging manufacturing markets beyond China, like Vietnam.	• Too much dependence on Chinese manufacturing meaning tariffs, rising costs and geopolitical tensions.

Main Competitors

The toy industry is a dynamic sector that has experienced significant growth and transformation over the years. It is characterized by fierce competition among global giants such as LEGO, Bandai Namco, Hasbro, and Mattel, each with their own iconic brands and product lines catering to a diverse range of age groups and interests (Figure 2).

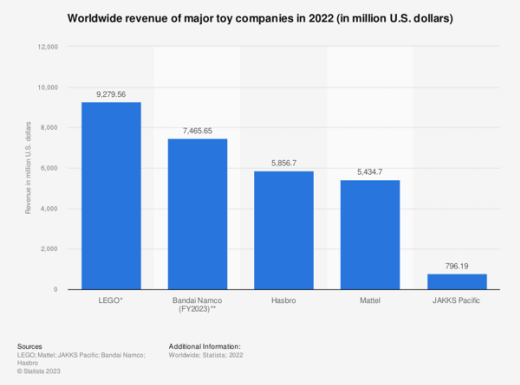


Figure 2: Worldwide revenue of major toy companies in 2022

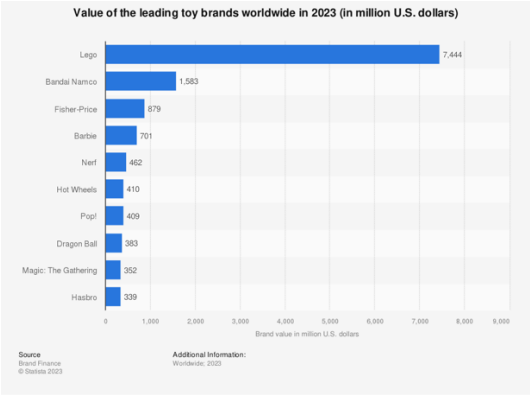


Figure 3: Value of the leading toy brands worldwide in 2023

Mattel is the main competitor of Hasbro, being both originating from the United States, playing the same field. Mattel is very powerful in the doll segment, with Barbie being a cultural icon and a consistent best-seller, and a very recent hype. The company also competes with Hasbro in the infant & baby sector with Fischer-Price against Hasbro's Playskool. Hot Wheels is another important brand for Mattel (Figure 3). Mattel's strategy often revolves around leveraging its strong brand portfolio, which appeals to a diverse consumer base across various age groups and interests. Mattel has recently reclaimed the rights for Disney Princess and Frozen fashion doll segment, from Hasbro, who previously got it from Mattel back in 2014. (Delventhal, 2019)

LEGO, established in 1932 in Billund, Denmark, has grown from a small carpenter's workshop to become one of the world's largest toy manufacturers. The LEGO brick, their signature product, is famous for its quality and the creative freedom it offers. LEGO's innovation in product design, marketing, and brand partnerships set a high industry standard. Lego has tapped the world of fandoms with many franchises of Disney, just like Hasbro and Mattel. Legoland, media and video games are also important businesses.

Bandai Namco, a prominent Japanese brand formed in 2005 through the merger of Bandai and Namco, has quickly become a leader in the entertainment and toy industry. Known for its wide array of licenses and

properties in the anime, video game, and entertainment sectors, Bandai Namco competes with Hasbro on multiple fronts, including action figures and digital gaming.

In conclusion, LEGO is leading the toy industry in growth, excelling in revenue and brand value, showing the success of their innovative mix of physical and digital play. Bandai Namco is not far behind, benefiting from strong brand franchises. Hasbro and Mattel are trailing comparatively, with Hasbro maintaining a solid market position but not growing rapidly, and Mattel needing new strategies to boost its growth.

3. Present situation of the company

Hasbro describes itself as "a leading toy and game company whose mission is to entertain and connect generations of fans through the wonder of storytelling and exhilaration of play."[3] Their goal is to entertain and connect people of all ages with great stories and fun playtime. They create exciting experiences through toys, products, games, and shows. Hasbro is known for famous brands like Magic: The Gathering, Dungeons & Dragons, Hasbro Gaming, Nerf, Transformers, Play-Doh, and Peppa Pig, and partners with other big brands.[3]

Hasbro's current businesses[3] involve:

- **Hasbro Consumer Products:** They make over 100 different products, not just toys and games, but also clothes, music, books, and fun places to visit.
- **Wizards & Digital Gaming:** A part of Hasbro called Wizards of the Coast makes popular tabletop and digital games, especially known for Magic: The Gathering and Dungeons & Dragons.
- **Entertainment:** Through its studio, Entertainment One (eOne), Hasbro makes all kinds of shows for people worldwide, on different platforms. They focus on making, buying, producing, funding, distributing, and selling content from Hasbro brands and new ideas. Hasbro acquired eOne for 4 billion dollars in 2019. The company previously had 3 divisions: music, TV & film, family brands. In 2021, Blackstone bought eOne Music from Hasbro for a 385-million-dollar cash deal. The TV & film division is set to be sold for 500 million dollars to Lionsgate in 2023-Q4.

Customers & Distribution Channels

In the context of a company like Hasbro, both consumers and accounts can be considered customers, but they represent different aspects of the customer base:

- **B2C - Consumers:** These are the individuals who purchase and use Hasbro's products, they are the end-users. They include children, families, gamers, collectors, and anyone else who buys toys, games, or engages with the brand's entertainment content.
- **B2B - Accounts:** These refer to businesses and entities that buy products from Hasbro in bulk to resell or distribute, they are the intermediaries. This includes retailers, distributors, and other commercial buyers.

[3] Source: Hasbro Official Website

Hasbro distributes its toys and games through various channels, including bulk buyers, different retail outlets, online platforms, and directly to consumers via Hasbro Direct. The company operates in regions like the Americas, Africa, Europe, and Asia-Pacific, with its headquarters in the US.[4]

Key Success Factors

Hasbro's success as a major player in the toy and entertainment industry can be attributed to a variety of key factors that the company has mastered over the years. From developing a wide range of innovative toys and games that capture the imagination of all ages, to leveraging well-known and beloved brands, Hasbro has established an unwavering place in the market.

- **Product Diversity:** Hasbro has a broad and diverse range of products that appeal to various age groups and interests, such as traditional toys and games, electronic games, and licensed merchandise.
- **Famous Brands:** The company owns and/or licenses many well-known brands, such as Monopoly, Transformers, My Little Pony, and Play-Doh. The strength of these brands is a significant driver of Hasbro's success.
- **Constant R&D:** Hasbro continuously invests in research and development. This includes integrating technology into traditional toys and developing new products to meet changing consumer preferences.
- **Global Distribution and Marketing:** Hasbro has a strong global distribution network, which allows it to market and sell its products in numerous countries worldwide. Effective marketing strategies also play a crucial role in promoting its products and brands.
- **Strategic Partnerships and Licensing:** The company has formed various partnerships and licensing agreements, for instance, with major entertainment companies like Disney. These partnerships allow Hasbro to produce merchandise for popular franchises like Marvel and Star Wars.
- **Adaptability:** The company has shown a strong ability to adapt to changing market conditions, consumer trends, and technological advancements, which is critical in the rapidly evolving toy industry.

In essence, Hasbro's ability to understand and meet the ever-changing demands of the toy and entertainment market has been central to its enduring success story. The company's success comes partly from knowing what it's good at. When things got tough, they turned their attention back to the things they already knew worked well. They realized that certain toys, like Mr. Potato Head, were always favorites, so they kept counting on the money these toys brought in. And when their new ideas didn't catch on, they decided to make electronic versions of their old, reliable games. *(Alonso)*

4. Main problems or challenges

In Hasbro's annual reports, several qualitative faults were highlighted, reflecting the challenges the company faced in recent years. Notably, 2022 was a difficult year, with Christmas sales falling short due to decreasing consumer purchasing power. The annual report focused more on plans for 2023, suggesting that 2022 might not have had many notable achievements to report.

A significant workforce reduction of 1000 people indicated a major restructuring within the company. Looking ahead, Hasbro plans to manage inventory more effectively in 2023, aiming to sell through existing stock more

[4] (Global Data, 2023)

efficiently. Financially, the company focused on deleveraging its balance sheet and returning cash to shareholders, signaling a strategic shift in financial management.

One bright spot was the performance of Wizards of the Coast, which emerged as the top revenue-generating business within Hasbro. However, executive leadership changes posed additional challenges. Following the loss of Brian Goldner, Hasbro's "golden boy," to cancer in October 2021, the company faced a turbulent period in 2022 as it navigated these changes.

Furthermore, Hasbro grappled with shipping issues and rising ocean costs, compounded by ongoing post-COVID supply chain disruptions. These factors together painted a picture of a company navigating through a complex and challenging business landscape, with strategic shifts and operational adjustments aimed at steering towards a more stable future.

Future Risk Factors Summary[5]

There are various risks and uncertainties confronting Hasbro, Inc in the dynamic and ever-evolving landscape of the toy and entertainment industry. These various challenges have the potential to significantly influence the company's financial health, operational efficiency, and overall business performance. The range of issue strategic, operational, global economic, and financial domains, as well as the governmental, regulatory, and legal frameworks that impact Hasbro's business operations.

Hasbro faces five main types of risks:

1. **Strategic Risks:** Hasbro's success heavily depends on its ability to adapt and execute its Blueprint 2.0 strategy. The company must continually innovate to keep up with rapidly changing consumer interests and preferences, especially as people may favor competitors' products. It's crucial for Hasbro to stay ahead in developing digital and advanced technological products. The company also must adjust to changing trends in the entertainment industry, like how people watch shows and movies. Plus, maintaining, and securing rights to partner brands is key, as losing these could be damaging. Hasbro operates in a highly competitive market with low entry barriers, and its decisions regarding acquisitions and investments can significantly affect its performance.
2. **Operational Risks:** The effectiveness of Hasbro's supply chain operations is critical. Delays or inefficiencies in product development and shipping, particularly in the face of global supply chain challenges, can hurt the business as it did before. Adapting to the growing importance of online sales and direct-to-consumer approaches is essential. The concentration of Hasbro's retail customer base means that the company's success is tied to a few key retailers, and this can be risky. International operations bring their own set of challenges, as does reliance on third-party manufacturers, particularly in China. The success of digital games and entertainment operations also depends on third-party studios and distributors. Leadership changes and the ability to attract and retain skilled and diverse talent are crucial for the company's continued success, as is protecting its intellectual property and effectively managing its IT systems.
3. **Global and Economic Risks:** Global events like the COVID-19 pandemic have significant impacts on Hasbro's business, affecting everything from product sourcing to shipping. General economic

[5] Source: 2022 Hasbro Annual Report p16-17

conditions also play a big role, with factors like inflation, interest rates, and consumer spending directly influencing Hasbro's performance.

4. **Financial Risks:** The seasonal nature of Hasbro's business means that earnings can fluctuate throughout the year. The company also faces risks from impairment charges on assets or investments, and changes in foreign currency rates due to its global operations can affect financial results. High levels of debt could restrict Hasbro's financial flexibility, and difficulties with external borrowings could be problematic. Tax rate changes in various countries where Hasbro operates can also impact its finances.
5. **Governmental, Regulatory, and Legal Risks:** Compliance with laws and regulations is crucial for Hasbro, and any violations could harm the business. Failing to meet sustainability goals could damage the company's reputation. Product liability issues, such as recalls, could have negative impacts, as could legal challenges related to media content in its entertainment business. Ongoing litigation and legal matters can also be costly and affect business operations.

Key Takes on Main Challenges

Hasbro's recent path has been filled with obstacles. The company has faced numerous challenges, from strategic difficulties and operational issues to economic uncertainties and a demanding regulatory landscape. These challenges have notably affected Hasbro's financial performance, with fluctuating revenues and increased competitive pressures. The situation underscores the complexity of managing a global business in a fast-changing industry. It highlights the need for companies like Hasbro to be flexible and adaptable in their strategies to successfully navigate through tough times and maintain their standing in the market.

5. Questions

1. Analyze the company financials.
2. Identify main financial strengths and weaknesses.
3. Identify main qualitative strengths and weaknesses.
4. Create cause and effect diagrams.

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Appendix

Hasbro, Inc. Balance Sheet 2020-2022 with calculations

	2022	2021	2020	21-22 %	20-21 %
ASSETS					
Current assets					
Cash and cash equivalents including restricted cash of $14.5 in 2022 and $35.8 in 2021	$ 513,10	1.019,20	1.449,70	-49,66%	-29,70%
Accounts receivable, less allowance for credit losses of $20.0 in 2022 and $22.9 in 2021	1.132,40	1.500,40	1.391,70	-24,53%	7,81%
Inventories	676,80	552,10	395,60	22,59%	39,56%
Prepaid expenses and other current assets	676,80	656,40	609,60	3,11%	7,68%
Total current assets	**2.999,10**	**3.728,10**	**3.846,60**	-19,55%	-3,08%
Property, plant and equipment, net	422,80	421,10	489,00	0,40%	-13,89%
Other assets					
Goodwill	3.470,10	3.419,60	3.691,70	1,48%	-7,37%
Other intangibles, net	814,60	1.172,00	1.530,80	-30,49%	-23,44%
Other	1.589,30	1.297,00	1.260,30	22,54%	2,91%
Total other assets	5.874,00	5.888,60	6.482,80	-0,25%	-9,17%
Total assets	**$ 9.295,90**	**10.037,80**	**10.818,40**	-7,39%	-7,22%
LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	$ 142,40	0,80	6,60		
Current portion of long-term debt	113,20	200,10	432,60	-43,43%	-53,74%
Accounts payable	427,30	580,20	425,50	-26,35%	36,36%
Accrued liabilities	1.506,80	1.674,80	1.538,60	-10,03%	8,85%
Total current liabilities	**2.189,70**	**2.455,90**	**2.403,30**	-10,84%	2,19%
Long-term debt	3.711,20	3.824,20	4.660,00	-2,95%	-17,94%
Other liabilities	533,10	670,70	794,00	-20,52%	-15,53%
Total liabilities	**6.434,00**	**6.950,80**	**7.857,30**	-7,44%	-11,54%
Redeemable noncontrolling interests	0	23,90	24,40		
Shareholders' equity					
Preference stock of $2.50 par value. Authorized 5,000,000 shares; none issued	-	-	-		
Common stock of $0.50 par value. Authorized 600,000,000 shares; issued 220,286,736 shares as of 2022 and 2021	110,10	110,10	110,10	0,00%	0,00%
Additional paid-in capital	2.540,60	2.428,00	2.329,10	4,64%	4,25%
Retained earnings	4.071,40	4.257,80	4.204,20	-4,38%	1,27%
Accumulated other comprehensive loss	(254,90)	(235,30)	(195,00)	8,33%	20,67%
Treasury stock, at cost, 82,106,383 shares in 2022 and 82,066,136 shares in 2021	(3.634,40)	(3.534,70)	(3.551,70)	2,82%	-0,48%
Noncontrolling interests	29,10	37,20	40,00	-21,77%	-7,00%
Total shareholders' equity	**2.861,90**	**3.063,10**	**2.936,70**	-6,57%	4,30%
Total liabilities, noncontrolling interests and shareholders' equity	$ 9.295,90	10.037,80	10.818,40	-7,39%	-7,22%

Hasbro, Inc. Income Statement 2019-2022 with calculations

	2022	2021	2020	2019	21-22 %	20-21 %	19-20 %
Net revenues	**$ 5.856,70**	**6.420,40**	**5.465,40**	**4.720,20**	**-9%**	**17%**	**16%**
Costs and expenses:							
Cost of sales	1.911,80	1.927,50	1.718,90	1.807,80	-1%	12%	-5%
COGS/ net revenue	*32,6%*	*30,0%*	*31,5%*	*38,3%*			
Program cost amortization	555,50	628,60	387,10	85,60	-12%	62%	352%
Royalties	493,00	620,40	570,00	414,50	-21%	9%	38%
Royalties/ net revenue	*8,4%*	*9,7%*	*10,4%*	*8,8%*			
Product development	307,90	315,70	259,50	262,20	-2%	22%	-1%
Product development/ net revenue	*5,3%*	*4,9%*	*4,7%*	*5,6%*			
Advertising	387,30	506,60	412,70	413,70	-24%	23%	0%
Amortization of intangible assets	105,30	116,80	144,70	47,30	-10%	-19%	206%
Selling, distribution and administration	1.666,10	1.432,70	1.252,10	1.037,00	16%	14%	21%
Selling, distribution and administration/ net revenue	*28,4%*	*22,3%*	*22,9%*	*22,0%*			
Loss on disposal of business	22,10	108,80			-80%		
Acquisition and related costs			218,60				
Total costs and expenses	**5.449,00**	**5.657,10**	**4.963,60**	**4.068,10**	-4%	14%	22%
Operating profit (EBIT)	**407,70**	**763,30**	**501,80**	**652,10**	**-47%**	**52%**	**-23%**
Non-operating expense (income):							
Interest expense (financial expense)	171,00	179,70	201,10	101,90	-5%	-11%	97%
Interest income	(11,80)	(5,40)	(7,40)	(30,10)	119%	-27%	-75%

BARCELONA SCHOOL OF MANAGEMENT

Hasbro, Inc. Cash Flow 2019-2022 with calculations

	2022	2021	2020	2019	
Cash flows from operating activities					
Net earnings	**$ 203,00**		**435,30**	**225,40**	**520,50**
Adjustments to reconcile net earnings to net cash provided by operating activities:					
Depreciation of property, plant and equipment		127,30	163,30	120,20	133,50
Loss on disposal of business		22,10	108,80	0	0
Impairment of intangibles and production assets		281,00	0	71,50	0
Loss on Discovery investment		0	74,10	0	0
Fair value adjustment on Discovery Option		0	(20,10)	(1,50)	(1,20)
					111,00
Amortization of intangible assets		105,30	116,80	144,70	47,30
Program cost amortization		555,50	628,60	387,10	85,60
Deferred income taxes		(130,10)	36,00	30,30	(15,00)
Stock-based compensation		83,40	97,80	49,70	28,00
Other non-cash items		3,20	(1,50)	9,00	(53,00)
Changes in operating assets and liabilities, net of acquired and disposed balances:					
Decrease (increase) in accounts receivable		339,60	(159,50)	210,80	(211,50)
(Increase) decrease in inventories		(139,50)	(173,90)	62,80	(4,60)
Decrease (increase) in prepaid expenses and other current assets		17,00	(30,60)	(7,50)	18,10
Program spend, net		(767,70)	(697,30)	(438,90)	(33,90)
Increase (decrease) in accounts payable and accrued liabilities		(278,70)	313,20	49,30	62,30
Change in net deemed repatriation tax		(18,40)	(18,40)	(18,40)	(14,60)
Other		(30,10)	(54,70)	81,80	(19,40)
Net cash provided by operating activities		**372,90**	**817,90**	**976,30**	**653,10**
Cash flows from investing activities					
Additions to property, plant and equipment		(174,20)	(132,70)	(125,80)	(133,60)
Investments and acquisitions, net of cash acquired		(146,30)	0	(4.412,90)	(8,80)
Proceeds from sale of business, net of cash		0	378,50	0	0
					80,00
Other		7,50	(3,80)	38,50	1,50
Net cash provided (utilized) by investing activities		**(313,00)**	**242,00**	**(4.500,20)**	**(60,90)**
Cash flows from financing activities					
Net proceeds from borrowings		3,80	144,00	1.112,60	2.355,00
Repayments of borrowings		(206,00)	(1.220,10)	(275,50)	0
Net proceeds (repayments) of other short-term borrowings		141,70	(5,60)	(8,60)	(8,80)
Purchases of common stock		(125,00)	0	0	(61,40)
Stock-based compensation transactions		74,20	30,60	16,60	31,80
Dividends paid		(385,30)	(374,50)	(372,70)	(336,60)
Payments related to tax withholding for share-based compensation		(24,00)	(13,70)	(6,00)	(13,10)
Redemption of equity instruments		0	0	(47,40)	0
					(100,00)
					975,20
Debt extinguishment costs		**0**	**(9,10)**	**0**	0
					(26,70)
Other		(32,70)	(11,40)	(13,10)	(4,80)
Net cash (utilized) provided by financing activities		(553,30)	(1.459,80)	405,90	2.810,60
Effect of exchange rate changes on cash		(12,70)	(30,60)	(12,70)	(4,80)
Decrease in cash, cash equivalents and restricted cash		(506,10)	(430,50)	(3.130,70)	3.398,00
Cash, cash equivalents and restricted cash at beginning of year		1.019,20	1.449,70	4.580,40	1.182,40
Cash, cash equivalents and restricted cash at end of year	$ 513,10		1.019,20	1.449,70	4.580,40
Supplemental information					
Interest paid	$ 161,70		171,90	182,90	82,20
Income taxes paid	$ 177,20		160,50	81,60	103,10