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Selection process, Sources and Share price performance

Selection Process

- To identify the right stock, I started with Barron’s list of 100 most sustainable companies (published in March 2023). Barron’s worked with Calvert Research and Management, a leader in ESG investing, to rank the companies. Calvert started with the largest 1,000 publicly traded U.S. companies by market cap. The top 100 firms achieved the highest scores across 230 ESG metrics, ranging from workplace diversity to greenhouse-gas emissions.
- From this list of 100 companies, I chose a company (“Hasbro”) I could understand and was trading at an attractive valuation.

Sources

- Hasbro Investor Relations
- Mattel Investor Relations
- Barrons' website
- Morningstar website
- The Toy Association Inc
- Sustainalytics

Hasbro - 3-year share price chart (USD)



Key indicators	Figures in USD
Ticker	HAS
Stock Exchange	NASDAQ
Current share price	66
52 week high	73
52 week low	47
Market cap (mn)	9,176
Adjusted 2023 P/E	16.3x

Company and Business Overview

Company Overview

- Founded in 1923, Hasbro is the number one toy company in the US and one of the largest in the world
- Hasbro's portfolio includes iconic brands such as Magic: The Gathering, Dungeons & Dragons, Nerf, Transformers, Play-Doh, Peppa Pig, Monopoly, Scrabble and Jenga
- Hasbro also develops toys and game products for brands it licenses from third parties such as Marvel, Star Wars, Beyblade and Fortnite
- Hasbro is a global company with 61% of its revenue coming from USA and 39% from international operations
- Hasbro's largest customers were Walmart and Amazon which accounted for 11% and 10% of revenues in FY 2022

Business segments

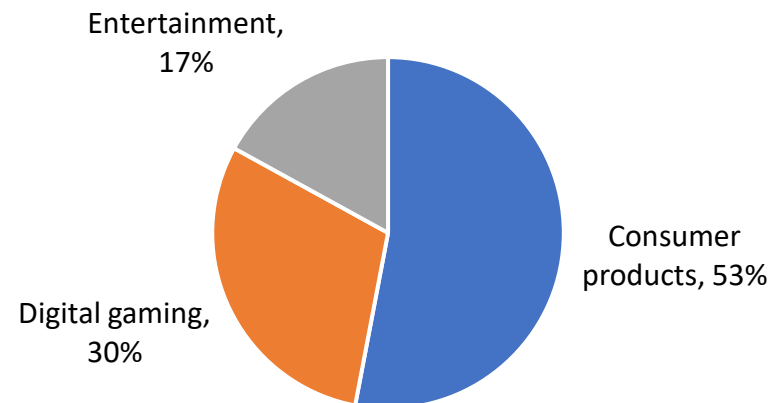
Hasbro operates under 3 business segments:

1. Consumer products (53% of revenue): Key categories include Action figures and accessories (e.g.: Transformers), Arts and crafts (e.g.: Play-Doh), Games (e.g.: Monopoly), Blasters/accessories (Nerf)
2. Digital gaming (30% of revenue): Major games include Magic: the Gathering and The Lord of the Rings: Tales of the Middle-earth.
3. Entertainment (17% of revenue): revenue mainly include TV shows such as "The Recruit", "Peppa Pig" and "Transformers: Rise of the Beasts". Hasbro announced the sale of its eOne Film division to Lionsgate in August 2023. eOne accounted for 85% of 2022 entertainment segment revenue and 60% of the segment's operating profit

Industry Overview

- The global toy industry is extremely fragmented with the 3 largest players accounting for less than 30% of the market. Hasbro has a market share of approximately 12%
- Global toy sales reached USD 107 billion in 2022 posting a 1.5% growth over 2021. Compounded annual growth rate for the global toy market was 3.5% over the five-year period since 2017
- US retail sales of toys generated USD 40 billion in 2022, a decrease of 0.2% compared to 2021. However, 2021 and 2020 were good years for the industry with growth of 13.7% and 16.9% respectively. 2021 and 2020 growth were impacted by Covid as people stayed home and spent money on games and toys
- In first half of 2023, revenue for the two largest players Hasbro and Mattel have declined by 12% and 16% respectively. Going forward, the management is guiding towards mid to single digit growth annual growth over the next 5 years.

Revenue breakdown by business segment



ESG Impact

UN SDG Goals	Responsible consumption & production	<ul style="list-style-type: none">100% suppliers trained through Hasbro’s Ethical sourcing academyRuns a global toy-recycling program, available in 12 countries, which reuses plastics and other materials. Trying to eliminate nearly all plastic from its single-use packaging, including bags, shrink wrap, and blister packs. The packaging will be made out of plant-based or recycled material.
	Reduced inequalities	<ul style="list-style-type: none">84% employee volunteerism45,020 employee hours supporting local communities; 4 million lives impacted – USD 21 million in total support including more than 850,000 toys and games donated
	Gender equality	<ul style="list-style-type: none">54% female board membershipOn track to achieve their goals to grow women in leadership roles to 50% globally and grow racially and ethnically diverse employee representation in the U.S. to 25% by 2025.
	Decent work and economic growth	<ul style="list-style-type: none">Efforts to ensure that workers at toy suppliers are treated fairly.Employees are given the opportunity y to learn new skills in a different part of the business. Swapportunities allow team members to “swap” into a new role for a temporary assignment while their original position remains secured.
	Climate action	<ul style="list-style-type: none">Hasbro’s 2030 target is to reduce Scope 1 and Scope 2 emissions by 47.5%, and reduce Scope 3 emissions by 42%Target is Net zero by 2050
	Clean water and sanitation	<ul style="list-style-type: none">Hasbro requires its suppliers to implement a water management program that (1) documents, characterizes and monitors water sources, use and discharge; (2) seeks opportunities to conserve water; and (3) controls channels of contamination. Wastewater must be monitored, controlled and treated as required prior to discharge or disposal. This requirement is part of Hasbro’s ethical sourcing program and supplier Code of Conduct. Supplier compliance with this requirement and water usage progress is monitored annually.

Why invest in Hasbro?

Fragmented industry + high entry barriers	<ul style="list-style-type: none">Industry is highly fragmented with top 3 players accounting for less than 30% growth. Hasbro has a 100-year-old history and is a trusted brandThe entry barriers in the segment that Hasbro operates is high as the small players compete purely on cost and cannot invest to build strong brands like Hasbro. Moreover, Hasbro's licensing arrangements with Star Wars, Marvel and Disney will be difficult to get for new entrantsThe industry has grown even during recession. During the global recession in 2008, both Hasbro and Mattel increased revenues
Strong revenue growth & high profitability	<ul style="list-style-type: none">Hasbro is implementing a new strategy called Hasbro Blueprint 2.0 which is expected to result in mid-single digit revenue growth over the next five years and increase in operating margins from 16% to 20%The strong revenue growth and increase in margins is expected to increase operating profits by 12-13% per annum over the next 5 years
Strong brand portfolio	<ul style="list-style-type: none">Hasbro's portfolio of global brands include Transformers, Peppa Pig, My Little Pony and Nerf. It also has partnerships with global brands like Disney and Marvel. There is a strong potential to increase the monetization of its brands like what Mattel did with the Barbie movieHasbro's digital gaming segment (such as Dungeons and Dragons) has double digit growth potential
High dividend yield and low valuations	<ul style="list-style-type: none">Hasbro has been a consistent dividend payer, paying out 60-70% of its profits as dividends every yearThe stock currently trades at a 4% dividend yieldHasbro is also trading at a P/E multiple of 16.4x. The average P/E multiple over the last 5 years has ranged between 14.5x – 22.2x
Strong management	<ul style="list-style-type: none">Chris Cocks was named CEO in 2022. He has been with the company since 2016 and was head of the digital gaming businessHasbro also announced a new CFO who has significant experience in consumer product companies such as Harley Davidson and General Mills
High ESG rating	<ul style="list-style-type: none">Since ESG investing is becoming more and more important, Hasbro's high ESG rating should attract investors helping increasing the share priceHasbro was ranked 10th in Barrons 2023 ranking of the most sustainable companies in the US (chosen from among the 1000 largest publicly traded companies in the US). Hasbro has a MSCI ESG rating of AAA and was selected as one of 100 Best Corporate Citizens by 3BL Media, one of the World's Most Ethical Companies by Ethisphere Institute and one of the 50 Most Community-Minded Companies in the U.S. by the Civic 50

Strong financial profile, high dividend yield and low valuation multiple

<i>USD mn</i>						<i>CAGR</i>	
Financial year ending Dec	2019A	2020A	2021A	2022A	2023E	2019-22	2019-2023
Revenue	4,720	5,465	6,420	5,857	5,524	7.5%	4.0%
% growth	0.0%	15.8%	17.5%	-8.8%	-5.7%		
EBITDA	842	991	1,177	1,081	1,103	8.7%	7.0%
% margin	17.8%	18.1%	18.3%	18.5%	20.0%		
EBIT	661	726	897	849	884	8.7%	7.5%
% margin	14.0%	13.3%	14.0%	14.5%	16.0%		
Net income	521	223	429	204	560		
% margin	11.0%	4.1%	6.7%	3.5%	10.1%		
Adjusted Net Income	543	515	723	618	560	4.4%	0.8%
% margin	11.5%	9.4%	11.3%	10.6%	10.1%		
EPS	3.8	1.6	3.1	1.5	4.0		
% growth	0.0%	-57.3%	92.7%	-52.5%	175.2%		
Adjusted EPS	3.9	3.7	5.2	4.5	4.0	4.4%	0.8%
% growth	0.0%	-5.2%	40.4%	-14.5%	-9.4%		
DPS	2.7	2.7	2.7	2.8	2.6		
% payout	69%	73%	52%	63%	65%		

- Hasbro has shown strong revenue growth of 7.5% during 2019-2022. FY 2023 was impacted by a slowdown in consumer products sales as well as a significant drop in revenue from the entertainment segment (because of the Hollywood strike). 2020 and 2021 showed a high growth in revenues because Covid impacted some of Hasbro's segments positively as people stayed at home and spent money on toys and games
- Consistent operating margins between 14-16% over the last 5 years
- Paid dividend to shareholders every year

<i>USD</i>	2019A	2020A	2021A	2022A	2023E
52 Week High share price	90	106	99	99	73
52 Week Low share price	78	45	87	55	47
Adjusted EPS	3.9	3.7	5.2	4.5	4.0
52-week High P/E	23.0x	28.6x	19.0x	22.2x	18.1x
52-week Low P/E	19.9x	12.1x	16.7x	12.3x	11.6x
Average High P/E	22.2x				
Average Low P/E	14.5x				

- Over the last 5 years, Hasbro has traded between an average high P/E of 22.2x and an average low P/E of 14.5x
- Hasbro is currently trading at a share price of USD 66 with a P/E of 16.3x
- Based on the estimated dividend per share of USD 2.6, Hasbro has a 4% dividend yield for 2023

Investment risks

Shifting preferences	<ul style="list-style-type: none">Consumers are slowly moving towards more digital forms of entertainment such as video games. If Hasbro is not able to produce relevant content for digital games, they will fall behind.
Failed acquisition	<ul style="list-style-type: none">Hasbro acquired eOne in 2019 for 4 billion, they are now selling it for 500 million to Lionsgate. This is a significant loss and if Hasbro continues to make such acquisitions, it will potentially reduce value for the company.
Supply chain disruptions	<ul style="list-style-type: none">Hasbro manufactures most of its goods outside the US and could be impacted if a scenario such as Covid-19 occurs again, or any other major situation arises which causes supply chain disruptions.
Reliance on two large customers	<ul style="list-style-type: none">Amazon and Walmart account for 21% of total sales of the company. This could lead to Hasbro being squeezed on prices, negatively impacting margins.
Inflation risk	<ul style="list-style-type: none">Global inflation is steadily rising. This could impact Hasbro's margins negatively if they are not able to pass on the increase in prices to their consumers.
ESG risks	<ul style="list-style-type: none">Since Hasbro produces products in some Asian countries. The main potential risk is the mistreatment of workers. Any impact on quality of the product could also be of very high concern as children are their main customers.

Return expectations

USD mn									
Financial year ending Dec	2019A	2020A	2021A	2022A	2023E	2024F	2025F	2026F	2027F
Revenue	4,720	5,465	6,420	5,857	5,524	5,872	6,242	6,634	7,049
% growth		15.8%	17.5%	-8.8%	-5.7%	6.3%	6.3%	6.3%	6.3%
EBITDA	842	991	1,177	1,081	1,103	1,231	1,371	1,524	1,690
% margin	17.8%	18.1%	18.3%	18.5%	20.0%	21.0%	22.0%	23.0%	24.0%
EBIT	661	726	897	849	884	998	1,124	1,260	1,410
% margin	14.0%	13.3%	14.0%	14.5%	16.0%	17.0%	18.0%	19.0%	20.0%
Net income	521	223	429	204	560	650	749	857	976
% margin	11.0%	4.1%	6.7%	3.5%	10.1%	11.1%	12.0%	12.9%	13.8%
Adjusted Net Income	543	515	723	618	560	650	749	857	976
% margin	11.5%	9.4%	11.3%	10.6%	10.1%	11.1%	12.0%	12.9%	13.8%
EPS	3.8	1.6	3.1	1.5	4.0	4.7	5.4	6.2	7.0
% growth		-57.3%	92.7%	-52.5%	175.2%	16.1%	15.2%	14.4%	13.8%
Adjusted EPS	3.9	3.7	5.2	4.5	4.0	4.7	5.4	6.2	7.0
% growth		-5.2%	40.4%	-14.5%	-9.4%	16.1%	15.2%	14.4%	13.8%
DPS	2.7	2.7	2.7	2.8	2.6	3.0	3.5	4.0	4.6
% payout	69%	73%	52%	63%	65%	65%	65%	65%	65%

- Management has guided that revenue would grow at mid single digit growth until 2027. Assumed an annual growth of 5% for the consumer products segment, 8% for the digital gaming segment and 4% for the entertainment segment
- Management has guided that operating margins will reach 20% by 2027. The company has already started a cost cutting exercise to improve margins
- Assumed that interest expense will come down as debt will decline by USD 400 million. Management has mentioned that the money received from the sale of e-One entertainment will be used to reduce debt
- Tax rate assumed at 21% based on historical analysis

Average High P/E over the last 5 years (based on 52-week high prices)	22.2x
Average Low P/E over the last 5 years (based on 52-week low prices)	14.5x
2027 Forecasted EPS	7.0
2027 share price based on average high P/E	155.9
2027 share price based on average low P/E	102.3
Current share price (29 Sep 2023)	66.1
Annualized return range (including forecasted dividends)	15% - 26%

- To forecast the share price in 2027, the 5-year average high P/E multiple of 22.2x was used to multiply with the forecasted 2027 EPS of USD 7 to arrive at a share price of USD 155.9
- Similarly, the 5-year average low P/E multiple of 14.5x was used to arrive at a share price of USD 102.3 in 2027
- The share price range of USD 102.3 to USD 155.9 and the forecasted dividends was used to calculate the expected annualized return range of 15-26%