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**HAS Hits a Home Run**

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Hasbro (HAS) delivered an excellent quarter and year.

I might have been too negative about this company given the shape of the economy, shifting consumer demand and industry woes. Furthermore, I might have underestimated the value of many franchises, such as Transformers, Star Wars and Nerf.

Hasbro is in strong financial condition. The company will generate more of its future growth from movie-related product sales and overseas growth. How do you say Monopoly in Cantonese?

Hasbro reported EPS of 84 cents on revenue of \$1.3 billion for the fourth quarter and EPS of \$1.97 on revenue of \$3.8 billion for the full year. Adjusting for favorable tax treatment and mark-to-market for Lucas warrants, Hasbro made \$2.03 per share, a rise of 42% year over year. Revenue rose 22% year over year for the full year. In constant dollars, revenue rose 19% year over year in 2007. International revenue was \$1.3 billion vs. \$959 million in 2006.

North American operating profit was 13% of revenue, while international operating profit margins were 12.4% of revenue in 2007. In 2006, international margins were 9.5%. Gross margins for the year were 58.9% vs. 58.6% a year ago. Improvement in gross margins was attributed to product mix changes.

Transformers, Spider-Man and Star Wars continue to do very well in the boys category. Total box office receipts for the *Transformers* movie exceeded \$700 million. Also, it was the No. 1 selling DVD, was nominated for three Academy Awards and, most importantly, yielded about \$480 million in revenue for Hasbro in 2007. The animated Star Wars movie is expected to be released later this year. Television animation is expected to begin in March for Spider-Man. The **Marvel** (MVL) -related products are expected to do well in 2008 on the back of theatrical releases of *The Incredible Hulk* and *Iron Man*.

The writers' strike is not expected to delay future theatrical releases. *G.I. Joe* starts to shoot this week and is scheduled for release in 2009. *Transformers 2* is also expected to be released in 2009

The girls category sustained annual growth of 29%, driven by the Littlest Pet Shop, My Little Pony and Fur Real Friends product lines.

The preschool category lagged with 7% growth for the year, mostly from 10% growth in Play Skool offset by disappointing results with the TJ Bearytales line.

The Nerf products, up 23%, helped to drive sales in the tween categories in 2007.

Hasbro closed on the acquisition of the Cranium board game last month. This adds to the company's strength in the board game portfolio, which includes timeless names such as Monopoly, Clue, Battleship, Yahtzee and Life. By the way, my kids like the new electronic Monopoly with the bank card feature.

Hasbro closed the year with \$775 million in cash vs. \$715 million a year ago. Inventories surged from \$203 million to \$259 million a year ago, and that

increase was attributed to the impact of foreign exchange rates. In fourth quarter, Hasbro repurchased 4.7 million shares, for a total cost of \$131.1 million.

HAS Preview: Dangerous Toys?

Hasbro (HAS) , the toy and game manufacturer, is scheduled to report fourth-quarter 2007 results and conduct its quarterly conference call before the market opens on Monday. While I cannot obtain an EPS estimate, I do see that analysts expect the company to generate \$1.22 billion in net sales. In the year-ago quarter, Hasbro earned 62 cents on net sales of \$1.12 billion.

Earlier this week, Hasbro's board of directors increased its share buyback by \$500 million and its quarterly dividend by 4 cents, to 20 cents per share

Hasbro stock has been a poor performer as the industry has been hit by two trends. First is the secular movement of electronic-based gaming on hand held devices and personal computers but most of all on set-top gaming boxes. Second is the recent rash of toy recalls. Whether or not Hasbro has had to recall toys is less important than the stigma of the continuous news reports of global toy recalls, especially for products manufactured in China.

We also know that the holiday selling season was not as robust as in the past few years, so Hasbro might have experienced a drop in last-minute orders due to declining demand.

Overall, I am not expecting much good from Hasbro, and we should anticipate cautionary commentary from management.

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At the time of publication, Rothbort had no positions in stocks mentioned, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.

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