The Hershey Company

First Quarter 2024 Earnings Results
Prepared Remarks

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CORPORATE PARTICIPANTS

Melissa Poole, *Vice President, Investor Relations*

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Steve Voskuil, *Senior Vice President and Chief Financial Officer*

PRESENTATION

Melissa Poole

Good morning everyone and welcome to the pre-recorded discussion of The Hershey Company's First Quarter 2024 Earnings Results. My name is Melissa Poole and I'm the Vice President of Investor Relations at Hershey. Joining me today are Hershey's Chairman and CEO Michele Buck, and Hershey's Senior Vice President and CFO Steve Voskuil.

In addition to these remarks, we will host an analyst Q&A-only session at 8:30 a.m. Eastern on the morning of May 3rd. A replay of this webcast and our subsequent Q&A session will be available on the Investor Relations section of our website, along with their corresponding transcripts.

During the course of today's discussion, Management will make forward-looking statements that are subject to various risks and uncertainties. These statements include expectations and assumptions regarding the Company's future operations and financial performance. Actual results could differ materially from those projected. The Company undertakes no obligation to update these statements based on subsequent events. A detailed listing of such risks and uncertainties can be found in today's press release and the Company's SEC filings.

Finally, please note that during today's discussion we will refer to certain non-GAAP financial measures that we believe will provide useful information for investors. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations to the GAAP results are included in this morning's press release.

It is now my pleasure to introduce our Chairman and CEO, Michele Buck.

Michele Buck

Thank you Melissa, and good morning everyone. Thank you for joining us today.

We are off to a strong start and remain on track to deliver our business strategies and financial commitments for the year. Our investments in innovation, marketing and in-store execution are driving consumer engagement and improving market share performance across segments. We are successfully operating in our new ERP system, a major milestone towards achieving our previously announced agility and efficiency targets. As we continue to navigate recent volatility in the business, we remain committed to strategies that drive long-term growth and sustainable value creation.

Category growth for both Confection and Salty Snacks outperformed broader food and other snack category trends in the first quarter. This is a testament to the iconic brands in these categories and their sustained relevance with consumers. Performance strengthened throughout the quarter as the impact of SNAP reductions moderated.

Seasons continues to perform well, with Valentine's category growth up 6.5%. Hershey's double-digit growth during the Valentine's season resulted in strong share gains. While a shorter season contributed to declining Easter category sales, Hershey outperformed and delivered strong sell-through and share gains. Easter marked four consecutive periods of seasonal market share gains for Hershey and we are excited about carrying this momentum into the fall.

Everyday market share trends improved across our Confectionery and Salty Snacks segments, led by higher levels of innovation, improved merchandising, and increased advertising reach. Reese's Caramel is off to a great start and it is the number one innovation in the category this year, with trial and repeat tracking in line with expectations. Our Superbowl ad was ranked one of consumers' favorites and generated strong consumer engagement and in-store merchandising.

We plan to build on this momentum this summer with our first ever Summer Seasonal Shape, commemorating our ongoing partnership with Team USA ahead of this year's Olympics. Reese's Medals will be available for a limited time, in concert with a new campaign featuring Olympic Legends and Newcomers, and 360 degree activation across advertising, social media and in-store displays. Fans and Reese lovers alike can engage in the spirit of friendly competition and test how much they know about these athletes leading up to the Paris Games.

These activations, in addition to strong in-store execution by our retail team and incremental programming on our Salty Snacks brands, are helping drive improved display activity in the first half of the year compared to second half 2023 levels. We are encouraged by the progress we've made and excited for the strong lineup we have planned for the second half.

As we mentioned at CAGNY, we will have a new gummy brand launching in late summer, in addition to great Olympics programming to drive strong display activity in stores. Later this year we will also launch a new advertising campaign and new flavors of SkinnyPop, along with a great new flavor of Dot's Pretzels. More to come on these.

Sales trends within our International segment were in line with expectations to start the year. Distribution and innovation gains in Brazil, Europe, Asia and Latin America built on strong category growth across markets. These gains were offset by planned declines in Mexico relating to exiting the beverage business in 2023 and softness in India related to difficult laps from the year ago period and lower seasonal sales. Our teams have a strong calendar planned for the second half of the year and continue to expect full year net sales growth of mid single digits, in line with our long-term algorithm.

We remain committed to investing in our brands to drive long-term growth, as evidenced by our strong increase in advertising spend across all segments in Q1, with continued support planned for the rest of the year.

Now for a brief update on our ERP implementation and our productivity and cost savings programs, all of which remain on track.

Our U.S., Canadian, and select International markets successfully went live with SAP S/4HANA the week of April 1st. The implementation is on track and progressing well. All systems are back online and we are executing a controlled ramp up of our end-to-end processes.

We are successfully taking orders, manufacturing across our network, shipping product and invoicing customers. Strong partnership and planning with our customers ensured they had inventory on-hand and there was little to no disruption in the marketplace. A heartfelt thank you to our teams who worked tirelessly to deliver this critical milestone. We are excited to leverage these new systems and processes to increase end-to-end connectivity and efficiency across the organization.

Our Advancing Agility & Automation Initiative remains on track to deliver an incremental $100 million of cost savings this year and we have a strong pipeline of opportunities for ’25 and ’26. These savings are enabled by leveraging the investments we’ve made in technology to drive automation, as well as harnessing the power of our scale across multiple categories to drive commercial advantage. We have a dedicated team leading the effort and ensuring we have the right resources in place to continue executing with excellence while we create a foundation to make us even stronger in the future.

None of this would be possible without the hard work and dedication of our teams around the globe. We have accomplished a lot to start the year and I couldn’t be more excited about the opportunity ahead of us.

Before I turn it over to Steve, let me share a few thoughts on the continued volatility in the cocoa market and the steps we are taking to address these factors in both the short and long term.

Cocoa is critical to our long-term business resilience and success, and as such, we have dedicated resources and strong investments in place to ensure we have a resilient supply chain for the future. While the 2023/2024 crop in West Africa declined, we are encouraged by the growth in other regions around the world and steps being taken in West Africa to improve supply. Farmer prices have increased, which should enable them to make more investments in fertilizer, pesticides, and other techniques to improve yields.

Improving cocoa resilience requires active engagement by governments, civil society and industry. Hershey and industry partners continue to invest in research and education to improve crop care, as well as efforts to strengthen economic resilience of farmers.

As we’ve shared previously, the current market is being impacted by factors beyond supply and demand. Lack of liquidity, new regulations, and market speculation have all contributed to the record high prices we are experiencing.

We have robust processes in place to ensure continuity of supply and good visibility into our costs. We are well covered for 2024 and do not expect recent volatility to affect our financial outlook for the year.

As we shared earlier this year, sustained high prices will drive inflation in 2025. While our 2025 planning is underway, it is premature to discuss potential financial scenarios or impacts, and for competitive reasons we will not be discussing our hedging policies or pricing strategies. But we remain confident in the long-term outlook and the levers we have to help mitigate inflation and protect our margins over the long term. We will share more information as we progress through the year and get closer to 2025.

With that, let me turn it over to Steve for some additional perspective on our financial results and outlook.

Steve Voskuil

Thank you Michele, and good morning everyone.

First quarter results were relatively in line with expectations, with a larger benefit from inventory associated with our April ERP implementation compared to our initial expectations.

Reported net sales growth of 8.9% was driven by base business growth of approximately 2%, and an approximate 7-point benefit from higher inventory levels in preparation for the ERP cutover. This was approximately 3 to 4 points ahead of expectations as our teams did a fantastic job partnering with retailers to achieve optimal inventory levels without disruption ahead of the transition. We expect the majority of this inventory to be depleted throughout the second quarter. Excluding this inventory impact, consumption trends across our segments were in line with expectations and there is no change to our full year outlook of 2% to 3% net sales growth.

North America Confectionery segment net sales growth of 10.4% was driven by price realization of nearly 6%, and volume growth of 4.5%. Higher inventory levels contributed approximately 8 to 9 points of volume growth, which was partially offset by elasticity-related volume declines of approximately 4%. Excluding inventory, base business growth of approximately 2% was in line with expectations and driven by seasons and Reese's Caramel innovation.

North America Salty Snacks segment net sales growth of 1.9% was driven by continued strength in Dot's Pretzels, partially offset by expected declines in SkinnyPop related to broader category weakness. While the category remains challenged, both sales and share trends improved in the first quarter compared to the second half of last year behind media and merchandising increases.

International segment net sales growth of 1.8% was driven by strength in Europe and Latin America, partially offset by planned declines related to the discontinuation of the dairy business product line in Mexico.

Adjusted gross margin of 44.9% was ahead of expectations, driven by volume leverage from higher than anticipated shipments. Excluding this impact, gross margin was in line with expectations and below prior year as pricing and productivity were more than offset by higher commodity costs. There is no change to our full year gross margin outlook, and we expect full year declines of approximately 200 basis points as cocoa and sugar inflation more than offset net price realization and supply chain productivity.

Advertising and related consumer marketing increased 12% in the first quarter with increases across segments. Adjusted operating expenses, excluding advertising and related consumer marketing spend, increased 3.3%, driven by elevated investments in capabilities and technology, as well as higher labor and benefits costs.

We remain on track to deliver an incremental $100 million in savings this year as part of our AAA initiative, with the majority of these savings realized in division and corporate expenses. As we shared previously, we expect the majority of these savings to be realized in the second half of the year.

The adjusted tax rate for the first quarter was 20.4%, a decrease of 240 basis points versus the year-ago period, driven by higher levels of renewable tax credits versus the prior year. We continue to expect a full year tax rate of approximately 13%, with other expense of approximately $220 million to $230 million.

Interest expense of $40 million was in line with expectations and we continue to expect full year expense of $165 million to $175 million.

Q1 adjusted earnings per share grew 3.7% as sales growth more than offset gross margin declines and higher capability and technology investments, primarily related to our ERP transition.

As a reminder, we expect high single digit sales declines in the second quarter as inventory levels normalize. These sales declines will drive additional gross margin pressure in the quarter as the Q1 cost absorption benefits reverse.

There is no change to our full year EPS outlook, and we continue to expect earnings in line with prior year.

Capital additions, including software, were $213 million in Q1, supporting our previously discussed capacity expansion projects and ERP implementation. We expect this pace to moderate and return to more historical levels as we progress through the year. We continue to expect full year capital investments of $600 million to $650 million.

In the first quarter, dividends paid to shareholders totaled $273 million, an increase of 31.8% versus the prior year period. This reflects the strength of the Company's performance over the past several years and our commitment to a dividend payout ratio of greater than 50%. Additionally, the Company repurchased $400 million of shares in the first quarter. This completes the May 2021 $500 million share buyback authorization and $470 million remains under the December 2023 authorization. This further reflects the strength of our balance sheet and our confidence in the long-term opportunity at Hershey.

With that, I will turn it back to Michele for closing remarks.

Michele Buck

Thanks Steve.

We continue to believe we have the right strategies, right portfolio and right teams to deliver leading performance over the long term. While we are experiencing unprecedented volatility in our largest commodity, we are focused on executing the things within our control with excellence: delivering great tasting products, compelling media campaigns and strong in-store execution, all while enhancing our capabilities and operating our business more efficiently.

We have learned a lot about how to operate in a volatile and uncertain environment over the past several years, and we will continue to act with agility and take a long-term view as we evolve with the market. We remain optimistic about our long-term future.

I want to thank everyone again for joining this morning, and I encourage you to listen to our live question-and-answer webcast which will begin today at 8:30 a.m. Eastern Time today and will be available at thehersheycompany.com. Thank you for your continued support and interest in Hershey.