



The Hershey Company

**Fourth Quarter 2024 Earnings Results
Prepared Remarks**

February 5, 2025

CORPORATE PARTICIPANTS

Anoori Naughton, *Senior Director, Investor Relations*

Michele Buck, *Chief Executive Officer and Chairman*

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

PRESENTATION

Anoori Naughton

Good morning, and welcome to the pre-recorded discussion of The Hershey Company's Fourth Quarter 2024 Earnings Results. I'm Anoori Naughton, Senior Director of Investor Relations. 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 February 6. 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

Good morning and thank you for joining us today.

Before diving into our results, I want to take a moment to recognize our incredible team. Across the organization, our team has acted with speed and agility to continue delivering for our consumers and customers in a pressured operating environment. These actions ensured we delivered against our fourth quarter plans and ended 2024 with momentum across our North American Confectionery and Salty Snacks businesses.

Looking ahead, we are beginning the year with exciting new leadership appointments and a renewed focus on innovation that is resonating with our consumers.

This is a transformational time for Hershey. As we mentioned in our last earnings call, we expect the surge in cocoa prices to continue to put significant pressure on earnings in 2025. That said, we remain laser

focused on driving top line and share momentum while executing against our transformation and efficiency programs. I look forward to leading this team as we deliver against our 2025 operating plan and position the business to deliver peer-leading performance over the long term.

Moving now to our Q4 results. Net sales grew 8.7%. Excluding the benefits from extra shipping days, inventory changes, and ERP related laps, our core business increased approximately 3%, driven by strong execution and consumer response to our second half plans.

Our U.S. Candy, Mint and Gum retail sales increased 2% in the fourth quarter, demonstrating seasonal strength and the anticipated acceleration in our everyday business. Halloween retail sales growth of 2.5% and Holiday growth of 1.1% yielded a seasonal share gain of approximately 40 basis points in the quarter. Everyday U.S. Candy, Mint, and Gum business increased 1.7%, with growth across Chocolate, Sweets, and Mint driven by our robust slate of new products and media investment despite soft convenience store traffic.

I'll share a few highlights from the quarter.

- Reese's Caramel and Lava Big Cup contributed 1 point to our everyday Chocolate retail sales growth.
- Shaq-a-licious XL Gummies were the Number 2 brand in Sweets dollar growth in the quarter.
- Jolly Rancher retail sales accelerated to 7.7% in the quarter, helped by the strength of Gummies and the recent addition of Ropes.
- Our everyday Sweets portfolio share gains accelerated to 65 basis points in Q4.
- Lastly, retail sales across the fast-growing club, dollar, and e-commerce classes of trade increased 8.2%, driven by the strong performance of Chocolate Assortments, Reese's, Kisses, and Brookside.

Net price realization of approximately 4% was slightly ahead of our expectations driven by carryover pricing announced in 2023 on our seasonal business, and as we began to see benefits from our August 2024 pricing announcement. We expect this level to continue in 2025, with planned price realization of 3% to 4% on our U.S. Confection business.

As we look to 2025, we have a strong year of innovation, media, and activation planned across our Confection business. We are introducing fewer, better, and bigger innovations across the core, including our biggest Reese's innovation ever, and we have healthy momentum from items launched in '24.

This weekend you will see Reese's Lava Big Cup featured in our second straight Superbowl Ad. We are also expanding Reese's reach to new audiences through a Big Game integration with Barstool Sports and a year-long partnership with the New Heights podcast, featuring the Kelce brothers. The early customer and consumer response to Jolly Rancher Freeze Dried has also been strong, and we will have incremental news on Sweets later this year.

Shifting now to North American Salty Snacks. Retail sales accelerated to 7.1% in the quarter, ahead of our expectations. SkinnyPop retail sales increased 4.7% and the brand gained approximately 155 basis points of ready-to-eat popcorn share driven by velocity, innovation, and a shift of a large customer promotion into Q4 from Q3. Dot's Pretzels had another strong quarter, increasing 20.9% and gaining approximately 325 basis points of pretzel share driven by household penetration gains, strong repeat rates, and flavor and pack type innovation.

You will soon see media featuring the popularity of SkinnyPop and an exciting new celebrity spokesperson. We will continue to focus on driving additional household penetration and velocity in ready-to-eat popcorn with refreshed branding, enhanced packaging, and price pack architecture, which will hit shelves in early

Q2. We also have exciting new flavors of Dot's and a Reese's branded sweet and salty innovation to expand in this fast-growing category. Lastly, you will see us leverage the full breadth of our portfolio with multi-brand multipacks, important for fast growing customers and consumer occasions.

We had a strong quarter within our International segment, driven by solid execution of holiday programs and innovation performance, with double-digit constant currency, organic sales growth in Mexico and EMEA, and high single digit growth in India. Reese's grew double digits across International markets, driven by distribution and retail execution, with significant expansion opportunity ahead of us across Europe, Australia, and the Middle East. While there are pockets of consumer pressure and higher competition across our International markets, we expect continued expansion driven by household penetration, distribution, and innovation momentum.

Turning to the outlook. For the full year, we expect net sales growth of at least 2%, which reflects core growth consistent with recent trends and the benefit from a long Easter. Our North America Confectionery and North America Salty Snacks segments are expected to grow in line with our long-term algorithm, while the International segment constant currency sales are expected to increase low single digits reflecting heightened competitive activity in key markets.

We continue to prioritize brand investment in '25, with media spend expected to grow ahead of sales. In addition, we have a new media agency effective January which will also bring efficiencies and drive further consumer engagement, allowing us to increase our reach and deliver stronger ROIs.

Turning now to cocoa. For 2025, we have very good visibility into our cocoa cost and physical supply. As many of you know, cocoa markets remain volatile, driven by low levels of financial market liquidity. We continue to believe that current high prices are not reflective of market fundamentals. Even with a lower outlook for the '24/'25 mid-crop, consensus continues to indicate global supply and demand in balance to a slight surplus. That is before considerations of any further global demand destruction resulting from persistent high market prices. We are already seeing signs of cocoa end users adapting through reformulation and off-exchange hedging mechanisms, which we expect will only accelerate. Moreover, funding and partnerships for longer term cocoa solutions, including cellular agriculture, increased by at least \$200 million since 2022.

We continue to advance our sourcing and hedging strategies, including origin and supply chain diversification, while investing in our cocoa science program. The strength of our R&D team gives us a greater opportunity to leverage all potential sources of cost savings without compromising on the high quality and great taste of our products that consumers love.

We are managing this business for the long term, while controlling what we can in the short term. Historically high cocoa prices will pressure earnings this year, as we previously communicated. As is always the case, we are monitoring many factors to inform the go-forward strategy, pricing, and investment decisions to position us for balanced top- and bottom-line growth in '26 and beyond. While we continue to view today's high cocoa prices as transient, our teams are readying opportunities for quick execution, and we are prepared to adjust our pricing, price pack architecture, formulations, demand shaping, and investment strategies, should our view on the commodity markets evolve.

Meanwhile, we are delivering on our efficiency and transformation programs to position our business and cost structure for long-term sustainable growth. Our Triple A program delivered \$143 million in net savings in 2024, above our plan, and is expected to generate an incremental \$125 million in 2025. Between 2023 and 2026, we expect to improve our cost structure by nearly \$900 million, while simultaneously investing in the capabilities, technology, talent, and infrastructure to support differentiated performance for years to come.

As I mentioned in my opening, we have welcomed Andrew Archambault and Veronica Villasenor as the new leaders of our U.S. Confectionery and Salty Snacks divisions, respectively. Andrew joins us from Keurig Dr Pepper, where he has extensive experience in transforming complex portfolios of iconic brands, and Vero is a Hershey veteran of 22 years with a proven track record of managing teams across global business units. The combination of fresh perspective and deep internal knowledge will be powerful in advancing our strategic ambitions and taking our business to the next level of growth.

And finally, after 20 years with Hershey, I've shared my intention to retire in 2026. With solid top-line momentum in the business and a strong team in place, this is the right time for me to pass the torch to the next generation of leadership. Until that transition takes place, I am fully focused on delivering our 2025 goals and driving forward the Leading Snacking Powerhouse vision I initiated during my tenure here at Hershey.

With that, I'll turn it over to Steve.

Steve Voskuil

Thank you, Michele, and good morning, everyone.

For the full year 2024, we delivered 0.3% net sales growth despite greater than expected macro pressures and ended the year with momentum behind our refreshed plans. Moreover, despite low double digit input cost inflation, pressuring both margins and earnings, our strong history of productivity and cost management delivered a three-year earnings per share CAGR of 9.2%, above our long-term target.

In the fourth quarter, we delivered reported net sales growth of 8.7%, while organic constant currency net sales grew 9%, slightly ahead of our expectations. The North America Confectionery segment performed ahead of expectations, reporting an organic, constant currency net sales increase of 5.9%. This growth was driven by approximately 4 points of price realization, reflecting pricing announced in August of 2024. The volume increased approximately 2% in the quarter, as solid seasonal and value channel growth and the benefit of two extra shipping days were only partially offset by convenience channel softness and expected price elasticity declines within our everyday business. As Michele noted, we had a strong quarter in our International segment with organic, constant currency net sales growth of 15%, driven by volume with strong holiday and innovation contributions. In the first quarter 2025, our North America Confectionery and International segments will both lap the planned inventory build ahead of the ERP implementation in Q1 of 2024. Additionally, the later Easter will shift shipments into Q2. As such, we anticipate organic, constant currency net sales to decline by mid-teens across both segments in the first quarter.

Net sales for our North America Salty Snacks segment increased 35.9%, reflecting an approximate 21 point tailwind from lapping the planned inventory drawdown following the Q4 2023 ERP implementation, as well as the expected benefits from order timing shifts from Q3 into Q4 following our route-to-market changes as well as two extra shipping days. The base business increase of high-single digits reflects acceleration in SkinnyPop consumption, the planned shift of a SkinnyPop promotion into Q4, and continued strength in Dot's Pretzels. As Michele mentioned, we have exciting plans and good visibility into increased levels of distribution, merchandizing, media, and innovation and we expect solid mid-single-digit growth in this segment this year. First quarter net sales growth will reflect incremental retailer fees ahead of the new SkinnyPop packaging set to launch in early Q2.

Moving down the P&L. Adjusted gross margin increased 60 basis points in the fourth quarter, ahead of expectations, reflecting stronger than planned pricing and productivity gains and a timing benefit related to inventory valuation, which more than offset expected commodity inflation and negative sales mix.

Advertising and related consumer marketing increased 2.4% in the fourth quarter driven by investments in North America Confectionery and North America Salty Snacks. Adjusted operating expenses, excluding advertising and related consumer marketing spend, declined approximately 9% due to reduced compensation and benefits costs and decreased technology investments as we successfully implemented our upgraded ERP system earlier in the year.

As Michele mentioned, our Triple A initiative delivered \$143 million of savings in 2024, ahead of our \$100 million target, driven by incremental supply chain savings. We are increasing the expected savings target for the program to \$350 million, of which \$125 million is targeted in 2025 and will build gradually over the year. Total three-year costs are projected to be between \$200 million and \$250 million, consistent with our prior outlook, including approximately \$25 million of non-cash costs.

Interest expense was \$40 million in the fourth quarter, slightly below expectations. The adjusted tax rate for the quarter was negative 13.7%, a decrease of approximately 10 points versus the year-ago period, largely due to higher levels of renewable energy tax credits in the current period.

The robust Q4 net sales growth coupled with strong productivity and cost management allowed us to deliver adjusted earnings per share of \$2.69 in the quarter

Capital additions, including software, were \$135 million in the fourth quarter, bringing the full year investment to approximately \$605 million. We reached completion of several significant projects in 2024, including a new chocolate making facility in Hershey which ensures high quality, domestic capacity for our products and enhances our manufacturing flexibility. Total capital investment this year is expected to be between \$425 million and \$450 million, in-line with historical levels as a percentage of sales.

We remain committed to our capital allocation priorities of reinvestment for growth, including M&A, a dividend payout ratio of at least 50%, and share repurchases. In the fourth quarter, dividends paid to shareholders totaled \$270 million, an increase of 13.7% versus the prior year period. The Company did not repurchase any shares in the fourth quarter against our December 2023 \$500 million authorization, with \$470 million remaining.

Now, let me share some additional perspective on 2025 and the cocoa market.

Regarding '25, we anticipate top line growth of at least 2%, driven primarily by price realization, with volume expected to be slightly down. Net sales related to the acquisition of Sour Strips is expected to be an approximate 30 basis point benefit. Foreign currency is expected to be unfavorable by approximately 30 basis points.

As Michele mentioned, we expect organic net sales growth within our North America Confectionery and Salty Snacks segments to be in-line with our long-term algorithm. International segment organic, constant currency net sales are expected to be slightly below algorithm, with stronger growth in the second half driven by program timing as well as higher pricing.

First quarter total company net sales are expected to decline mid-teens as we lap inventory built ahead of our April 2024 ERP implementation and an early Easter in the prior year period. This dynamic will reverse in Q2.

As Michele mentioned, we have very good visibility into our cost basket, including cocoa, albeit at significantly higher pricing levels than prior year. Our coverage caps our risk while allowing us to participate if the cocoa market falls. We have no concerns about the global physical supply of cocoa. Fundamentals continue to improve with cocoa arrivals in Ivory Coast and Ghana ports up approximately 30% compared

to this time last year. Rest of world production, which is nearly half of the global supply, is pacing at 10% growth versus prior year. We have largely secured our butter, liquor, and powder needs for the year.

For the full year, we expect adjusted gross profit margin to contract by approximately 650 to 700 basis points. Historically high cocoa prices, sugar and other raw material inflation, along with incremental labor inflation, new tariffs, and negative product mix are expected to more than offset net price realization, supply chain productivity and incremental savings from our transformation program. Adjusted gross margin is expected to be higher in the first half than in the second half as cocoa costs increase over the course of the year while our pricing and cost savings remain relatively constant. Keep in mind that our International segment is largely a Chocolate business and therefore is expected to see relatively more margin compression in 2025. For the first quarter, we expect total company adjusted gross margin to decline approximately 400 basis points.

Brand reinvestment is a critical growth lever in 2025, and advertising and related consumer spend is expected to increase mid-single-digits versus prior year as we support momentum across all three segments. Total advertising and related consumer spend as a percentage of sales is expected to remain below historical levels driven by reductions in non-working investments, and automation and AI-driven productivity gains. Other operating expenses are expected to decline by low-single-digits driven by incremental productivity and transformation program savings. Corporate expenses are projected to increase low-double-digits, reflecting the expected reset in incentive compensation versus prior year, and incremental capability and technology investments.

We expect our full year 2025 adjusted effective tax rate to be approximately 14% to 15%. Other expense, which includes the write-down of renewable energy investments, is expected to be between \$170 million and \$180 million. Interest expense is expected to be \$190 million to \$195 million, reflecting a higher interest rate environment.

Our capital allocation priorities remain consistent. We continue to reinvest in our business, including the addition of attractive accretive brands like Sour Strips. Given our strong balance sheet, and our confidence in future business performance, we are maintaining our dividend. Moreover, we continue to elevate share buy backs as a priority, and we currently project shares outstanding to decline approximately 50 basis points for the year.

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

Michele Buck

Thanks, Steve.

The growth we've had over the last quarter across multiple categories is a testament to our strategy in action. We have the right team in place to drive long-term growth while finding innovative ways to navigate short-term market challenges. We will continue to invest in key capabilities, technology, and talent. And we remain focused on executing against our strategy to deliver the next stage of growth and profitability for Hershey.