VIAVID
communications simplified.

The Hershey Company

First Quarter 2023 Earnings Results
Prepared Remarks

April 26, 2023

CORPORATE PARTICIPANTS

Melissa Poole, *Vice President, Investor Relations*

Michele Buck, *Chief Executive Officer and Chairman*

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 2023 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 April 27. 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.

We had a great start to the year as our increased investments in the business and strong execution delivered resilient consumer demand and drove double digit sales and earnings growth in the quarter. Net sales in the first quarter grew 12.1%, driven by both price and volume gains across segments.

Within our North America Confectionery segment, price elasticities were comparable to what we saw in the second half of 2022 and remained ahead of historical levels. This led to modest volume growth despite high single digit price realization, resulting in double digit net sales gains for the quarter.

Seasons continued to be a growth driver with category sales for Valentine's Day up double digits versus the prior year, and despite the shorter Easter season, category sales grew mid-single digits. While consumers are shopping on tighter budgets, candy and snacks remain an affordable way to bring joy to seasonal celebrations with loved ones.

We've also seen strong demand for gum and mint products as the category rebounds from subdued demands related to the Omicron surge last year. Retail sales in both categories grew 20% to 25% in the first quarter and are now ahead of pre-pandemic levels. Hershey's growth of 30% outpaced the category, resulting in a refreshment share gain of 110 basis points in the quarter. This performance builds on previous share gains over the past several years, resulting in an overall refreshment share gain of 250 basis points versus pre-pandemic levels.

As we discussed in our recent Investor Day, expanding our presence in non-chocolate candy is a strategic priority for us given strong consumer demand, particularly in the gummy segment. Our investments in innovation and media in this space are paying dividends, with Q1 retail sales growth of almost 19% for Twizzlers and over 15% for our Jolly Rancher brands.

As we exit the Easter season, we expect to be in a strong position to fully support consumer demand across both our everyday and seasonal products. We expect this, combined with our increased investments in advertising, to improve our market share performance as we progress through the year.

The summer season is already underway with our retail teams setting up S'mores and Twizzlers displays across the country. Just last week we kicked off a limited-edition Reese's Creamy and Crunchy promotion, providing consumers options to enjoy extra creamy and extra crunchy versions of our number one brand. Fans can visit our website to vote for their favorite and see real-time results, with the winner announced on May 18, also known as "National I Love Reese's Day".

Within our North America Salty Snacks segment, high single digit volume gains and low double digit price realization drove overall net sales growth of over 19% in the first quarter. SkinnyPop retail takeaway of over 23% drove a 220-basis point share gain in the ready-to-eat popcorn category. Dot's Pretzel's performance also continued to shine, with retail sales growth of over 25% in the quarter, resulting in a pretzel category share gain of 100 basis points.

As we discussed on our last earnings call and during Investor Day, we are excited to launch new campaigns and increase media investment on our salty snack brands this year to foster even stronger consumer engagement and drive household penetration.

Dot's first national campaign launched several weeks ago, with a focus on increasing buy rate in existing markets and helping drive household penetration in underpenetrated markets like the Northeast. Our March activation of Pirate's Booty with enhanced creative has already started to increase velocities and we will monitor the impact to inform our second half investment model. And we are continuing to invest in SkinnyPop with higher levels of advertising and optimized media creative.

With this strong demand and higher level of investment, it has become even more critical to enhance our supply chain capabilities and secure capacity to sustain our growth. Last week, we announced our intent to acquire two manufacturing plants from Weaver Popcorn Manufacturing, a leader in popcorn production and co-packing, and a co-manufacturer of Hershey's SkinnyPop brand. These state-of-the-art facilities will enable more flexibility, agility and resiliency across our growing salty snacks supply chain network.

In the first quarter, we successfully integrated Dot's and Pretzel's Inc into our Salty Snacks division, bringing the full power of all of our amazing brands into one unified commercial and supply chain team. We added new capabilities and talent to support the businesses' current scale and robust growth, and we remain optimistic about the opportunities ahead to expand the business and improve margins.

Within our International segment, we saw continued strength across markets driven by distribution expansion, innovation and media activations. Net sales in Mexico, Brazil, and India grew a combined 25% in the first quarter, driven primarily by volume. Our world travel retail business saw strong double-digit growth as travel rebounded off last year's Omicron driven slowdown. And our export business also performed well with high single-digit growth in the quarter as we continue to build our brands in a disciplined way around the globe.

We have strong business momentum and remain confident in our ability to deliver our financial goals for the year. We continue to advance work on key commercial, supply chain and technology strategies to sustain this momentum into 2024 and the years to come.

Within our supply chain, construction has begun on our new chocolate making facility in Hershey, Pennsylvania, and we are on track to increase production capacity approximately 5% over the course of this year. This includes the installation and start-up of three new Reese lines and a new Hershey line. As we shared during our Investor Day, as we add capacity we also remain focused on enhancing our network to optimize output, margin, utilization rates, and service levels, and our teams are off to a great start.

The transition of our Salty Snacks ERP platform remains on track to execute in the fourth quarter, with our US transition on track to implement next spring. We also continue to invest in commercial capabilities to enhance planning and analytics across our organization and with our retail partners.

These capacity, capability and talent investments are critical for us to sustain our differentiated performance for years to come. I couldn't be prouder of the team's efforts to advance these important initiatives while continuing to deliver outstanding business results.

With that, let me turn it over to Steve to provide more details on our financial results and outlook.

Steve Voskuil

Thank you Michele, and good morning everyone.

Our first quarter performance is a testament to the resilience of our categories, the strength of our brands, our ability to invest for profitable growth, and our teams' agility and strong execution. As a result of our strong start and increased visibility into customer demand and supply chain costs for the remainder of the year, we are increasing our sales and earnings outlook for the year.

Net price realization of 8.9% in the first quarter was in line with expectations. Volume contributed an additional 3.3 points of growth, which was slightly ahead of expectations due to continued strength in consumer demand and earlier shipments of summer activations originally planned for the second quarter. Earlier summer shipments from Q2 contributed approximately 1.5 points of sales growth to the first quarter. This stronger volume growth, combined with favorable packaging and logistics costs, enabled us to overdeliver our gross margin expectations for Q1. Adjusted gross margin increased 80 basis points in the first quarter as price realization, volume growth, improved supply chain performance, and increased productivity offset higher commodity, wage and overhead costs. As a result of this Q1 strength, we now expect full year adjusted gross margin to expand 70 to 80 basis points.

Advertising and related consumer spending increased approximately 9% in the first quarter, in line with our expectations, as we prioritized investments across segments to drive strong consumer engagement and support conversion at new retail price points.

Corporate and divisional expenses increased 15.8% as planned, driven by incremental capability and technology investments, as well as compensation and benefits inflation.

The adjusted tax rate for the first quarter was 22.7%, an increase of 150 basis points versus the prior year period. This was driven by fewer renewable energy tax credits versus the prior year period, which in turn drove a decline in other expenses of about $7 million versus the same period last year. Our full year outlook for tax rate and renewable energy credit investments remains in line with our prior guidance.

This continued strength in consumer demand and improving margins led to adjusted EPS growth of 17% in the quarter, generating strong cash flow to reinvest in the business and return to shareholders.

Capital additions, including software, were $176 million in Q1, supporting our previously discussed capacity expansion projects and ERP implementations. Dividends paid to shareholders total $207 million, an increase of 14.3% versus the prior year period. And we repurchased 1 million shares at a cost of approximately $240 million dollars.

As Michele mentioned, last week we entered an agreement to acquire manufacturing capacity from Weaver Popcorn Manufacturing, Inc., a current co-manufacturer of SkinnyPop. These facilities provide more flexibility, agility and resiliency across our growing salty snacks supply chain network and enable us to continue supporting the brands' strong growth. The purchase price for these facilities is $164 million and will be financed with cash on hand and short-term borrowings. We expect the deal to close in Q2.

I remain confident that our balanced and disciplined approach to investing in our brands, capacity, digital infrastructure, and our people will enable us to create value for all shareholders for many years to come.

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

Michele Buck

Thanks, Steve.

As we execute against our commercial strategies and deliver our financial goals, we remain focused on the important work of embedding our ESG priorities within our short and long-term business strategies.

We continue to prioritize issues that are material to our long-term business results. A resilient cocoa supply chain has, and will continue to be, a top priority for Hershey. We are excited about the upcoming launch of a new income accelerator program in Cote d'Ivoire to support increased incomes for cocoa farming households through the provision of cash transfers and investments in village savings and loan associations. This program is a great example of strong collaboration across governments and NGOs to build on best practices and develop a multi-faceted approach to address poverty while supporting sustainable farming practices and mitigating the risk of child labor. We look forward to sharing more about our ESG progress in our upcoming annual report.

Thank you for your time this morning. I invite you to listen to our live question-and-answer webcast, which will begin today at 8:30 a.m. Eastern time and will be available at thehersheycompany.com. Thank you.