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Hershey Reports Second-Quarter 2019 Financial Results; Updates 2019 Net Sales and Earnings Outlook

HERSHEY, Pa., July 25, 2019 - The Hershey Company (NYSE: HSY) today announced net sales and earnings for the second quarter ended June 30, 2019. The company updated its net sales outlook to the mid-point of the previously guided range, and slightly raised its reported and adjusted earnings outlook to the top half of the previous range.

“We are pleased with our second quarter results and the momentum we are seeing behind our key initiatives for this year,” said Michele Buck, The Hershey Company President and Chief Executive Officer. “We continue to deliver differentiated results by growing both top and bottom line while investing in our brands and capabilities. We are on track to deliver our financial commitments for the year driven by accelerated U.S. performance, a strengthened international business and continued operational excellence.”

Second-Quarter 2019 Financial Results Summary¹

- Consolidated net sales of \$1,767.2 million, an increase of 0.9%.
- Organic constant currency net sales increased 1.8%.
- The net impact of acquisitions and divestitures was a 0.6 point headwind, and foreign currency exchange was a 0.3 point headwind.
- Reported net income of \$312.8 million, or \$1.48 per share-diluted, an increase of 37%.
- Adjusted earnings per share-diluted of \$1.31, an increase of 14.9%.

¹ All comparisons for the second quarter of 2019 are with respect to the second quarter ended July 1, 2018

2019 Full-Year Financial Outlook Summary²

- Full-year reported net sales are expected to increase around 2%, the mid-point of the previous 1-3% range.
 - The net impact of acquisitions and divestitures is estimated to be approximately a 0.5 point benefit.
 - The impact of foreign currency exchange is anticipated to be negligible based on current exchange rates.
- Full-year reported earnings per share-diluted are expected to be in the \$5.54 to \$5.66 range, relatively flat with prior year.
- Full-year adjusted earnings per share-diluted are expected to increase 6% to 7%, the upper half of the previous 5% to 7% range.

² All comparisons for full-year 2019 are with respect to the full year ended December 31, 2018

Second-Quarter 2019 Results

Consolidated net sales were \$1,767.2 million in the second quarter of 2019 versus \$1,751.6 million in the year ago period, an increase of 0.9%. Net price realization and volume were a 1.2 point and 0.6 point benefit, respectively. The net impact of acquisitions and divestitures was a 0.6 point headwind, and foreign currency exchange was a 0.3 point headwind.

As outlined in the table below, the company's second-quarter 2019 results, as prepared in accordance with U.S. generally accepted accounting principles (GAAP), included items impacting comparability of \$39.7 million, or \$0.17 per share-diluted. For the second quarter of 2018, items impacting comparability totaled \$22.6 million, or \$0.06 per share-diluted.

Reported gross margin was 49.5% in the second quarter of 2019, compared to 45.3% in the second quarter of 2018, an increase of 420 basis points. Adjusted gross margin was 46.5% in the second quarter of 2019, compared to 44.5% in the second quarter of 2018, an increase of 200 basis points. This increase in both reported and adjusted gross margin was driven by favorable mix and fixed cost absorption driven by increased production related to the company's recently announced July 2019 price increase, favorable commodities, lower waste and net price realization. The favorable impact of mix and fixed cost absorption was approximately 90 basis points in the second quarter and is expected to be offset in the second half, primarily Q3, as inventory levels normalize.

Selling, marketing and administrative expenses increased 0.9% in the second quarter of 2019 versus the second quarter of 2018 driven by advertising. Advertising and related consumer marketing expenses increased 5.6% in the second quarter of 2019 versus the same period last year driven by advertising increases in both North America and our International markets. Selling, marketing and administrative expenses, excluding advertising and related consumer marketing, decreased 1.4% versus the second quarter of 2018 driven by decreased spending related to our Margin for Growth Program and lower acquisition-related costs.

Second-quarter 2019 reported operating profit of \$410.1 million increased 29.9% versus the second quarter of 2018, resulting in an operating margin of 23.2%, an increase of 520 basis points driven primarily by gross margin gains. Adjusted operating profit of \$370.0 million increased 9.0% versus the second quarter of 2018. This resulted in an adjusted operating margin of 20.9%, an increase of 150 basis points versus the second quarter of 2018 driven primarily by gross margin gains.

The effective tax rate in the second quarter of 2019 was 13.7%, a decrease of 40 basis points versus the second quarter of 2018. The adjusted tax rate in the second quarter of 2019 was 14.8%, a decline of 120 basis points versus the second quarter of 2018. Both the effective and adjusted tax rate favorability were driven primarily by valuation allowance releases in two international locations.

The following table presents a summary of items impacting comparability in each period (see Appendix I for additional information):

| | Pre-Tax (millions) | | Earnings Per Share-Diluted | |
|--|---------------------------|---------------------|-----------------------------------|---------------------|
| | Three Months Ended | | Three Months Ended | |
| | June 30, 2019 | July 1, 2018 | June 30, 2019 | July 1, 2018 |
| Derivative Mark-to-Market Gains | \$ (53.5) | \$ (20.8) | \$ (0.25) | \$ (0.10) |
| Business Realignment Activities | 6.4 | 15.3 | 0.03 | 0.07 |
| Acquisition-Related Costs | 2.3 | 4.8 | 0.01 | 0.02 |
| Long-Lived Asset Impairment Charges | 4.7 | 27.2 | 0.02 | 0.13 |
| Noncontrolling Interest Share of Business Realignment and Impairment Charges | 0.4 | (1.2) | — | (0.01) |
| Gain on Sale of Licensing Rights | — | (2.7) | — | (0.01) |
| Tax effect of all adjustments reflected above | — | — | 0.02 | (0.04) |
| Total | \$ (39.7) | \$ 22.6 | \$ (0.17) | \$ 0.06 |

The following are comments about segment performance for the second quarter of 2019 versus the year-ago period. See the schedule of supplementary information within this press release for additional information on segment net sales and profit.

North America (U.S. and Canada)

Hershey's North America net sales were \$1,568.0 million in the second quarter of 2019, an increase of 0.5% versus the same period last year. Pricing was a 1.5 point benefit. Volume was a 0.5 point headwind, the net impact of acquisitions and divestitures was a 0.3 point headwind, and foreign currency exchange rates were a 0.2 point headwind.

Total Hershey U.S. retail takeaway for the 11 weeks ended July 14, 2019³, in the expanded multi-outlet combined plus convenience store channels (IRI MULO + C-Stores) increased 1.9% versus the prior-year period. Hershey's U.S. candy, mint and gum retail takeaway increased 1.9%, resulting in flat market share versus the prior-year period.

North America advertising and related consumer marketing expenses increased 2.7% in the second quarter of 2019 versus the same period last year driven by advertising. Favorable gross margin resulted in a segment income increase of 6.1% to \$470.9 million in the second quarter of 2019, compared to \$443.9 million in the second quarter of 2018.

³ Includes candy, mint, gum, salty snacks, meat snacks and grocery items; 11 week period excludes the impact of the Easter shift

International and Other

Second-quarter 2019 net sales for Hershey's International and Other segment increased 3.9% versus the same period last year, to \$199.2 million. Volume was a 9.6 point benefit. Divestitures were a 3.2 point headwind, net price realization was a 1.3 point headwind, and foreign currency exchange rates were a 1.2 point headwind.

Combined net sales in our strategic focus markets (Mexico, Brazil, India and China) declined approximately 4%. Excluding an approximate 6.5 point headwind from divestitures and a 2.5 point headwind from foreign currency exchange rates, combined organic constant currency net sales in Mexico, Brazil, India and China grew approximately 5%.

A reconciliation between reported (i) constant currency net sales growth rates and (ii) organic constant currency net sales growth rates is provided below:

Three Months Ended June 30, 2019

| | Percentage Change as Reported | Impact of Foreign Currency Exchange | Percentage Change on Constant Currency Basis | Impact of Acquisitions and Divestitures | Percentage Change on Organic Constant Currency Basis |
|-------------------------------|--|--|---|--|---|
| Mexico | 8.0 % | 1.3 % | 6.7 % | — % | 6.7% |
| Brazil | (3.5)% | (8.2)% | 4.7 % | — % | 4.7% |
| India | 0.3 % | (3.3)% | 3.6 % | — % | 3.6% |
| China | (33.8)% | (3.9)% | (29.9)% | (33.8)% | 3.9% |
| Total Strategic Focus Markets | (4.0)% | (2.5)% | (1.5)% | (6.5)% | 5.0% |

International and Other segment income increased 32.0% to \$21.9 million in the second quarter of 2019 driven by gains from volume growth and gross margin expansion.

Unallocated Corporate Expense

Hershey's unallocated corporate expense in the second quarter of 2019 was \$122.9 million, an increase of \$1.9 million versus the same period of 2018. This increase was driven primarily by compensation increases.

2019 Full-Year Financial Outlook

Full-year reported net sales are expected to increase around 2%. The net impact of acquisitions and divestitures is estimated to be approximately a 0.5 point benefit and the foreign currency exchange rate impact is expected to be minimal based on current exchange rates.

Full-year reported earnings per share-diluted are expected to be roughly in-line with 2018 reported earnings per share-diluted, while adjusted earnings per share-diluted are expected to increase 6% to 7% versus 2018.

Below is a reconciliation of projected 2019 and full-year 2018 earnings per share-diluted calculated in accordance with GAAP to non-GAAP adjusted earnings per share-diluted:

| | <u>2019 (Projected)</u> | <u>2018</u> |
|--|-------------------------|---------------|
| Reported EPS – Diluted | \$5.54 – \$5.66 | \$5.58 |
| Derivative mark-to-market gains | — | (0.80) |
| Business realignment activities | 0.01 – 0.03 | 0.25 |
| Acquisition-related costs | 0.04 – 0.06 | 0.21 |
| Gain on sale of licensing rights | — | (0.01) |
| Pension settlement charges relating to company-directed initiatives | 0.03 – 0.05 | 0.03 |
| Long-lived and intangible asset impairment charges | — | 0.27 |
| Noncontrolling interest share of business realignment and impairment charges | — | (0.03) |
| Tax effect of all adjustments reflected above | — | (0.14) |
| Adjusted EPS – Diluted | <u>\$5.68 – \$5.74</u> | <u>\$5.36</u> |

2019 projected earnings per share-diluted, as presented above, does not include the impact of mark-to-market gains and losses on our commodity derivative contracts that will be reflected within corporate unallocated expense in segment results until the related inventory is sold, since we are not able to forecast the impact of the market changes.

Live Webcast

At 8:30 a.m. ET today, Hershey will host a conference call to elaborate on second-quarter results. To access this call as a webcast, please go to Hershey’s web site at <http://www.thehersheycompany.com>.

Note: In this release, for the second quarter of 2019, Hershey references income measures that are not in accordance with GAAP because they exclude certain items impacting comparability, including business realignment activities, acquisition-related costs, pension settlement charges related to company-directed initiatives, and gains and losses associated with mark-to-market commodity derivatives. These non-GAAP financial measures are used in evaluating results of operations for internal purposes and are not intended to replace the presentation of financial results in accordance with GAAP. Rather, the company believes exclusion of such items provides additional information to investors to facilitate the comparison of past and present operations. A reconciliation of the non-GAAP financial measures referenced in this release to their nearest comparable GAAP financial measures as presented in the Consolidated Statements of Income is provided below.

Reconciliation of Certain Non-GAAP Financial Measures

| Consolidated results In thousands except per share data | Three Months Ended | |
|--|--------------------|-------------------|
| | June 30, 2019 | July 1, 2018 |
| Reported gross profit | \$ 874,744 | \$ 793,420 |
| Derivative mark-to-market gains | (53,552) | (20,831) |
| Business realignment activities | — | 7,322 |
| Acquisition-related costs | — | 25 |
| Non-GAAP gross profit | <u>\$ 821,192</u> | <u>\$ 779,936</u> |
| Reported operating profit | \$ 410,070 | \$ 315,724 |
| Derivative mark-to-market gains | (53,552) | (20,831) |
| Business realignment activities | 6,378 | 15,296 |
| Acquisition-related costs | 2,326 | 4,781 |
| Long-lived asset impairment charges | 4,741 | 27,168 |
| Gain on sale of licensing rights | — | (2,658) |
| Non-GAAP operating profit | <u>\$ 369,963</u> | <u>\$ 339,480</u> |
| Reported provision for income taxes | \$ 49,898 | \$ 36,687 |
| Derivative mark-to-market gains* | (4,541) | (2,754) |
| Business realignment activities* | 1,897 | 11,676 |
| Acquisition-related costs* | 557 | 1,076 |
| Gain on sale of licensing rights* | — | (1,203) |
| Non-GAAP provision for income taxes | <u>\$ 47,811</u> | <u>\$ 45,482</u> |
| Reported net income | \$ 312,840 | \$ 226,855 |
| Derivative mark-to-market gains | (49,011) | (18,077) |
| Business realignment activities | 4,481 | 3,619 |
| Acquisition-related costs | 1,769 | 3,705 |
| Long-lived asset impairment charges | 4,741 | 27,168 |
| Noncontrolling interest share of business realignment and impairment charges | 417 | (1,246) |
| Gain on sale of licensing rights | — | (1,455) |
| Non-GAAP net income | <u>\$ 275,237</u> | <u>\$ 240,569</u> |
| Reported EPS - Diluted | \$ 1.48 | \$ 1.08 |
| Derivative mark-to-market gains | (0.25) | (0.10) |
| Business realignment activities | 0.03 | 0.07 |
| Acquisition-related costs | 0.01 | 0.02 |
| Long-lived asset impairment charges | 0.02 | 0.13 |
| Noncontrolling interest share of business realignment and impairment charges | — | (0.01) |
| Gain on sale of licensing rights | — | (0.01) |
| Tax effect of all adjustments reflected above** | 0.02 | (0.04) |
| Non-GAAP EPS - Diluted | <u>\$ 1.31</u> | <u>\$ 1.14</u> |

* The tax effect for each adjustment is determined by calculating the tax impact of the adjustment on the company's quarterly effective tax rate, unless the nature of the item and/or the tax jurisdiction in which the item has been recorded requires application of a specific tax rate or tax treatment, in which case the tax effect of such item is estimated by applying such specific tax rate or tax treatment.

** Adjustments reported above are reported on a pre-tax basis before the tax effect described in the reconciliation above for Non-GAAP provision for income taxes. There is no tax effect associated with adjustments for Long-lived asset impairment charges and Noncontrolling interest share of business realignment and impairment charges.

In the assessment of our results, we review and discuss the following financial metrics that are derived from the reported and non-GAAP financial measures presented above:

| | Three Months Ended | |
|--------------------------------------|---------------------------|---------------------|
| | June 30, 2019 | July 1, 2018 |
| As reported gross margin | 49.5% | 45.3% |
| Non-GAAP gross margin (1) | 46.5% | 44.5% |
| As reported operating profit margin | 23.2% | 18.0% |
| Non-GAAP operating profit margin (2) | 20.9% | 19.4% |
| As reported effective tax rate | 13.7% | 14.1% |
| Non-GAAP effective tax rate (3) | 14.8% | 16.0% |

- (1) Calculated as non-GAAP gross profit as a percentage of net sales for each period presented.
- (2) Calculated as non-GAAP operating profit as a percentage of net sales for each period presented.
- (3) Calculated as non-GAAP provision for income taxes as a percentage of non-GAAP income before taxes (calculated as non-GAAP operating profit minus non-GAAP interest expense, net plus or minus non-GAAP other (income) expense, net).

We present certain percentage changes in net sales on a constant currency basis, which excludes the impact of foreign currency exchange. To present this information for historical periods, current period net sales for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the average monthly exchange rates in effect during the corresponding period of the prior fiscal year, rather than at the actual average monthly exchange rates in effect during the current period of the current fiscal year. As a result, the foreign currency impact is equal to the current year results in local currencies multiplied by the change in average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year.

A reconciliation between reported (i) constant currency net sales growth rates and (ii) organic constant currency net sales growth rates is provided below:

Three Months Ended June 30, 2019

| | Percentage Change as Reported | Impact of Foreign Currency Exchange | Percentage Change on Constant Currency Basis | Impact of Acquisitions and Divestitures | Percentage Change on Organic Constant Currency Basis |
|---------------------------------------|--|--|---|--|---|
| North America segment | | | | | |
| Canada | (3.7)% | (3.6)% | (0.1)% | — % | (0.1)% |
| Total North America segment | 0.5 % | (0.2)% | 0.7 % | (0.3)% | 1.0 % |
| International and Other segment | | | | | |
| Mexico | 8.0 % | 1.3 % | 6.7 % | — % | 6.7 % |
| Brazil | (3.5)% | (8.2)% | 4.7 % | — % | 4.7 % |
| India | 0.3 % | (3.3)% | 3.6 % | — % | 3.6 % |
| China | (33.8)% | (3.9)% | (29.9)% | (33.8)% | 3.9 % |
| Total International and Other segment | 3.9 % | (1.2)% | 5.1 % | (3.2)% | 8.3 % |
| Total Company | 0.9 % | (0.3)% | 1.2 % | (0.6)% | 1.8 % |

Appendix I

Details of the charges included in GAAP results, as summarized in the press release (above), are as follows:

Mark-to-Market Gains on Commodity Derivatives: The mark-to-market (gains) losses on commodity derivatives are recorded as unallocated and excluded from adjusted results until such time as the related inventory is sold, at which time the corresponding (gains) losses are reclassified from unallocated to segment income. Since we often purchase commodity contracts to price inventory requirements in future years, we make this adjustment to facilitate the year-over-year comparison of cost of sales on a basis that matches the derivative gains and losses with the underlying economic exposure being hedged for the period.

Business Realignment Activities: We periodically undertake restructuring and cost reduction activities as part of ongoing efforts to enhance long-term profitability. During the first quarter of 2017, we commenced the Margin for Growth Program to drive continued net sales, operating profit and earnings per share-diluted growth over the next several years. This program is focused on improving global efficiency and effectiveness, optimizing the company's supply chain, streamlining the company's operating model and reducing administrative expenses to generate long-term savings. During the second quarter of 2019, business realignment charges related primarily to severance expenses and other third-party costs related to this program. During the second quarter of 2018, business realignment charges related primarily to severance expenses, accelerated depreciation and other third-party costs related to this program.

Acquisition-Related Costs: Costs incurred during the second quarter of 2019 related to the integration of the 2018 acquisitions of Amplify Snack Brands, Inc and Pirate Brands. Costs incurred during the second quarter of 2018 included legal and consultant fees incurred to effectuate the Amplify acquisition, as well as other costs relating to the integration of the business.

Long-Lived Asset Impairment Charges: During the second quarter of 2019, we recorded impairment charges, which are predominantly comprised of select land that has not yet met the held for sale criteria. Additionally, included within our impairment charges is a contingency, that arose following the divestiture of Tyrrells, Inc. in July 2018. During the second quarter of 2018, we recorded estimated losses to reduce the carrying values of the Shanghai Golden Monkey and Tyrrells businesses presented as held for sale to their estimated fair values less costs to sell.

Noncontrolling Interest Share of Business Realignment and Impairment Charges: Certain of the business realignment and impairment charges recorded in connection with the Margin for Growth Program related to a joint venture in which we own a 50% controlling interest. Therefore, we have also adjusted for the portion of these charges included within the income (loss) attributed to the noncontrolling interest.

Gain on Sale of Licensing Rights: During the second quarter of 2018, we recorded a gain on the sale of licensing rights for a non-core trademark relating to a brand marketed outside of the United States.

Tax Effect of All Adjustments: This line item reflects the aggregate tax effect of all pre-tax adjustments reflected in the preceding line items of the applicable table. The tax effect for each adjustment is determined by calculating the tax impact of the adjustment on the company's quarterly effective tax rate, unless the nature of the item and/or the tax jurisdiction in which the item has been recorded requires application of a specific tax rate or tax treatment, in which case the tax effect of such item is estimated by applying such specific tax rate or tax treatment.

Safe Harbor Statement

This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Many of these forward-looking statements can be identified by the use of words such as “intend,” “believe,” “expect,” “anticipate,” “should,” “planned,” “projected,” “estimated,” and “potential,” among others. These statements are made based upon current expectations that are subject to risk and uncertainty. Because actual results may differ materially from those contained in the forward-looking statements, you should not place undue reliance on the forward-looking statements when deciding whether to buy, sell or hold the company's securities. Factors that could cause results to differ materially include, but are not limited to: issues or concerns related to the quality and safety of our products, ingredients or packaging; changes in raw material and other costs, along with the availability of adequate supplies of raw materials; selling price increases, including volume declines associated with pricing elasticity; market demand for our new and existing products; increased marketplace competition; disruption to our manufacturing operations or supply chain; failure to successfully execute and integrate acquisitions, divestitures and joint ventures; changes in governmental laws and regulations, including taxes; political, economic, and/or financial market conditions; risks and uncertainties related to our international operations; disruptions, failures or security breaches of our information technology infrastructure; our ability to hire, engage and retain a

talented global workforce; our ability to realize expected cost savings and operating efficiencies associated with strategic initiatives or restructuring programs; complications with the design or implementation of our new enterprise resource planning system; and such other matters as discussed in our Annual Report on Form 10-K for the year ended December 31, 2018. All information in this press release is as of June 30, 2019. The company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the company's expectations.

The Hershey Company
Consolidated Statements of Income
for the periods ended June 30, 2019 and July 1, 2018
(unaudited) (in thousands except per share amounts)

| | <u>Second Quarter</u> | | <u>Six Months</u> | |
|---|-----------------------|-------------------|-------------------|-------------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Net sales | \$ 1,767,217 | \$ 1,751,615 | \$ 3,783,705 | \$ 3,723,574 |
| Cost of sales | 892,473 | 958,195 | 2,016,457 | 1,956,094 |
| Gross profit | <u>874,744</u> | <u>793,420</u> | <u>1,767,248</u> | <u>1,767,480</u> |
| Selling, marketing and administrative expense | 453,793 | 449,548 | 907,366 | 934,872 |
| Long-lived asset impairment charges | 4,741 | 27,168 | 4,741 | 27,168 |
| Business realignment costs | 6,140 | 980 | 6,202 | 9,204 |
| Operating profit | <u>410,070</u> | <u>315,724</u> | <u>848,939</u> | <u>796,236</u> |
| Interest expense, net | 33,776 | 34,952 | 71,234 | 64,291 |
| Other (income) expense, net | <u>13,125</u> | <u>20,766</u> | <u>18,602</u> | <u>22,708</u> |
| Income before income taxes | 363,169 | 260,006 | 759,103 | 709,237 |
| Provision for income taxes | <u>49,898</u> | <u>36,687</u> | <u>141,951</u> | <u>135,199</u> |
| Net income including noncontrolling interest | <u>313,271</u> | <u>223,319</u> | <u>617,152</u> | <u>574,038</u> |
| Less: Net income (loss) attributable to noncontrolling interest | 431 | (3,536) | (46) | (3,020) |
| Net income attributable to The Hershey Company | <u>\$ 312,840</u> | <u>\$ 226,855</u> | <u>\$ 617,198</u> | <u>\$ 577,058</u> |
| Net income per share | | | | |
| - Basic - Common | <u>\$ 1.54</u> | <u>\$ 1.11</u> | <u>\$ 3.03</u> | <u>\$ 2.82</u> |
| - Diluted - Common | <u>\$ 1.48</u> | <u>\$ 1.08</u> | <u>\$ 2.93</u> | <u>\$ 2.73</u> |
| - Basic - Class B | <u>\$ 1.39</u> | <u>\$ 1.01</u> | <u>\$ 2.75</u> | <u>\$ 2.56</u> |
| Shares outstanding | | | | |
| - Basic - Common | <u>149,025</u> | <u>148,948</u> | <u>148,864</u> | <u>149,534</u> |
| - Diluted - Common | <u>210,817</u> | <u>210,378</u> | <u>210,568</u> | <u>211,170</u> |
| - Basic - Class B | <u>60,614</u> | <u>60,620</u> | <u>60,614</u> | <u>60,620</u> |
| Key margins: | | | | |
| Gross margin | 49.5% | 45.3% | 46.7% | 47.5% |
| Operating profit margin | 23.2% | 18.0% | 22.4% | 21.4% |
| Net margin | 17.7% | 13.0% | 16.3% | 15.5% |

The Hershey Company
Supplementary Information – Segment Results
for the periods ended June 30, 2019 and July 1, 2018
(unaudited) (in thousands of dollars)

| | Second Quarter | | | Six Months | | |
|---|----------------|--------------|----------|--------------|--------------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| Net sales: | | | | | | |
| North America | \$ 1,568,040 | \$ 1,559,952 | 0.5 % | \$ 3,374,998 | \$ 3,311,640 | 1.9 % |
| International and Other | 199,177 | 191,663 | 3.9 % | 408,707 | 411,934 | (0.8)% |
| Total | \$ 1,767,217 | \$ 1,751,615 | 0.9 % | \$ 3,783,705 | \$ 3,723,574 | 1.6 % |
| Segment income: | | | | | | |
| North America | \$ 470,898 | \$ 443,859 | 6.1 % | \$ 1,035,659 | \$ 978,285 | 5.9 % |
| International and Other | 21,944 | 16,627 | 32.0 % | 42,187 | 34,307 | 23.0 % |
| Total segment income | 492,842 | 460,486 | 7.0 % | 1,077,846 | 1,012,592 | 6.4 % |
| Unallocated corporate expense (1) | 122,879 | 121,006 | 1.5 % | 237,383 | 244,973 | (3.1)% |
| Mark-to-market adjustment for commodity derivatives (2) | (53,552) | (20,831) | 157.1 % | (25,585) | (117,081) | (78.1)% |
| Long-lived asset impairment charges | 4,741 | 27,168 | (82.5)% | 4,741 | 27,168 | (82.5)% |
| Costs associated with business realignment initiatives | 6,378 | 15,296 | (58.3)% | 6,862 | 31,247 | (78.0)% |
| Acquisition-related costs | 2,326 | 4,781 | (51.3)% | 5,506 | 32,707 | (83.2)% |
| Gain on sale of licensing rights | — | (2,658) | NM | — | (2,658) | NM |
| Operating profit | 410,070 | 315,724 | 29.9 % | 848,939 | 796,236 | 6.6 % |
| Interest expense, net | 33,776 | 34,952 | (3.4)% | 71,234 | 64,291 | 10.8 % |
| Other (income) expense, net | 13,125 | 20,766 | (36.8)% | 18,602 | 22,708 | (18.1)% |
| Income before income taxes | \$ 363,169 | \$ 260,006 | 39.7 % | \$ 759,103 | \$ 709,237 | 7.0 % |

(1) Includes centrally-managed (a) corporate functional costs relating to legal, treasury, finance, and human resources, (b) expenses associated with the oversight and administration of our global operations, including warehousing, distribution and manufacturing, information systems and global shared services, (c) non-cash stock-based compensation expense, and (d) other gains or losses that are not integral to segment performance.

(2) Net (gains) losses on mark-to-market valuation of commodity derivative positions recognized in unallocated derivative (gains) losses.

NM - not meaningful

| | Second Quarter | | Six Months | |
|---|----------------|-------|------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| Segment income as a percent of net sales: | | | | |
| North America | 30.0% | 28.5% | 30.7% | 29.5% |
| International and Other | 11.0% | 8.7% | 10.3% | 8.3% |

The Hershey Company
Consolidated Balance Sheets
as of June 30, 2019 and December 31, 2018
(in thousands of dollars)

| <u>Assets</u> | 2019 | 2018 |
|--|---------------------|---------------------|
| | <i>(unaudited)</i> | |
| Cash and cash equivalents | \$ 365,963 | \$ 587,998 |
| Accounts receivable - trade, net | 538,746 | 594,145 |
| Inventories | 957,953 | 784,879 |
| Prepaid expenses and other | 230,896 | 272,159 |
| | <hr/> | <hr/> |
| Total current assets | 2,093,558 | 2,239,181 |
| Property, plant and equipment, net | 2,107,185 | 2,130,294 |
| Goodwill | 1,805,955 | 1,801,103 |
| Other intangibles | 1,257,868 | 1,278,292 |
| Other assets | 499,303 | 252,984 |
| Deferred income taxes | 29,691 | 1,166 |
| | <hr/> | <hr/> |
| Total assets | <u>\$ 7,793,560</u> | <u>\$ 7,703,020</u> |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Accounts payable | \$ 479,792 | \$ 502,314 |
| Accrued liabilities | 650,922 | 679,163 |
| Accrued income taxes | 16,748 | 33,773 |
| Short-term debt | 886,779 | 1,197,929 |
| Current portion of long-term debt | 353,186 | 5,387 |
| | <hr/> | <hr/> |
| Total current liabilities | 2,387,427 | 2,418,566 |
| Long-term debt | 2,888,043 | 3,254,280 |
| Other long-term liabilities | 636,913 | 446,048 |
| Deferred income taxes | 197,096 | 176,860 |
| | <hr/> | <hr/> |
| Total liabilities | 6,109,479 | 6,295,754 |
| Total stockholders' equity | <hr/> | <hr/> |
| | 1,684,081 | 1,407,266 |
| Total liabilities and stockholders' equity | <u>\$ 7,793,560</u> | <u>\$ 7,703,020</u> |