

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2019**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period  
from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-183**

**THE HERSHEY COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation  
or organization)

**23-0691590**

(I.R.S. Employer Identification No.)

**19 East Chocolate Avenue**

**Hershey, PA 17033**

(Address of principal executive offices)  
(Zip Code)

**(717) 531-4200**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, one dollar par value	HSY	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, one dollar par value—148,965,141 shares, as of July 19, 2019.

Class B Common Stock, one dollar par value—60,613,777 shares, as of July 19, 2019.

**THE HERSHEY COMPANY**  
**Quarterly Report on Form 10-Q**  
**For the Period Ended June 30, 2019**

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**PART I — FINANCIAL INFORMATION**  
**Item 1. Financial Statements.**

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
<b>Net sales</b>	\$ 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
<b>Gross profit</b>	874,744	793,420	1,767,248	1,767,480
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
<b>Operating profit</b>	410,070	315,724	848,939	796,236
Interest expense, net	33,776	34,952	71,234	64,291
Other (income) expense, net	13,125	20,766	18,602	22,708
<b>Income before income taxes</b>	363,169	260,006	759,103	709,237
Provision for income taxes	49,898	36,687	141,951	135,199
<b>Net income including noncontrolling interest</b>	313,271	223,319	617,152	574,038
Less: Net income (loss) attributable to noncontrolling interest	431	(3,536)	(46)	(3,020)
<b>Net income attributable to The Hershey Company</b>	<u>\$ 312,840</u>	<u>\$ 226,855</u>	<u>\$ 617,198</u>	<u>\$ 577,058</u>
<b>Net income per share—basic:</b>				
Common stock	\$ 1.54	\$ 1.11	\$ 3.03	\$ 2.82
Class B common stock	\$ 1.39	\$ 1.01	\$ 2.75	\$ 2.56
<b>Net income per share—diluted:</b>				
Common stock	\$ 1.48	\$ 1.08	\$ 2.93	\$ 2.73
Class B common stock	\$ 1.38	\$ 1.01	\$ 2.74	\$ 2.56
<b>Dividends paid per share:</b>				
Common stock	\$ 0.722	\$ 0.656	\$ 1.444	\$ 1.312
Class B common stock	\$ 0.656	\$ 0.596	\$ 1.312	\$ 1.192

See Notes to Unaudited Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)  
(unaudited)

	For the three months ended						For the six months ended					
	June 30, 2019			July 1, 2018			June 30, 2019			July 1, 2018		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
<b>Net income including noncontrolling interest</b>			\$313,271			\$223,319			\$617,152			\$574,038
<b>Other comprehensive income (loss), net of tax:</b>												
Foreign currency translation adjustments:												
Foreign currency translation gains (losses) during period	\$ 7,651	\$ —	7,651	\$(22,412)	\$ —	(22,412)	\$ 11,079	\$ —	11,079	\$(23,679)	\$ —	(23,679)
Pension and post-retirement benefit plans:												
Reclassification of tax effects relating to U.S. tax reform	—	—	—	—	—	—	—	—	—	—	(36,535)	(36,535)
Reclassification to earnings	6,720	(1,773)	4,947	5,094	(1,107)	3,987	13,438	(3,580)	9,858	10,191	(2,132)	8,059
Cash flow hedges:												
Gains (losses) on cash flow hedging derivatives	(2,547)	1,130	(1,417)	3,559	(473)	3,086	(3,336)	1,848	(1,488)	7,804	(1,463)	6,341
Reclassification of tax effects relating to U.S. tax reform	—	—	—	—	—	—	—	—	—	—	(11,121)	(11,121)
Reclassification to earnings	1,395	(885)	510	2,463	(585)	1,878	2,833	(1,776)	1,057	4,723	(1,195)	3,528
<b>Total other comprehensive income (loss), net of tax</b>	<u>\$ 13,219</u>	<u>\$ (1,528)</u>	<u>11,691</u>	<u>\$(11,296)</u>	<u>\$ (2,165)</u>	<u>(13,461)</u>	<u>\$ 24,014</u>	<u>\$ (3,508)</u>	<u>20,506</u>	<u>\$ (961)</u>	<u>\$(52,446)</u>	<u>(53,407)</u>
<b>Total comprehensive income including noncontrolling interest</b>			<u>\$324,962</u>			<u>\$209,858</u>			<u>\$637,658</u>			<u>\$520,631</u>
Comprehensive income (loss) attributable to noncontrolling interest			338			(3,654)			416			(2,354)
<b>Comprehensive income attributable to The Hershey Company</b>			<u>\$324,624</u>			<u>\$213,512</u>			<u>\$637,242</u>			<u>\$522,985</u>

See Notes to Unaudited Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	June 30, 2019	December 31, 2018
	(unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
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
Total current assets	2,093,558	2,239,181
<b>Property, plant and equipment, net</b>	2,107,185	2,130,294
<b>Goodwill</b>	1,805,955	1,801,103
<b>Other intangibles</b>	1,257,868	1,278,292
<b>Other assets</b>	499,303	252,984
<b>Deferred income taxes</b>	29,691	1,166
Total assets	\$ 7,793,560	\$ 7,703,020
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
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
Total current liabilities	2,387,427	2,418,566
<b>Long-term debt</b>	2,888,043	3,254,280
<b>Other long-term liabilities</b>	636,913	446,048
<b>Deferred income taxes</b>	197,096	176,860
Total liabilities	6,109,479	6,295,754
<b>Stockholders' equity:</b>		
The Hershey Company stockholders' equity		
Preferred stock, shares issued: none in 2019 and 2018	—	—
Common stock, shares issued: 299,287,967 at June 30, 2019 and December 31, 2018	299,287	299,287
Class B common stock, shares issued: 60,613,777 at June 30, 2019 and December 31, 2018	60,614	60,614
Additional paid-in capital	1,075,187	982,205
Retained earnings	7,358,277	7,032,020
Treasury—common stock shares, at cost: 150,242,266 at June 30, 2019 and 150,172,840 at December 31, 2018	(6,781,509)	(6,618,625)
Accumulated other comprehensive loss	(336,736)	(356,780)
Total—The Hershey Company stockholders' equity	1,675,120	1,398,721
Noncontrolling interest in subsidiary	8,961	8,545
Total stockholders' equity	1,684,081	1,407,266
Total liabilities and stockholders' equity	\$ 7,793,560	\$ 7,703,020

See Notes to Unaudited Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	Six Months Ended	
	June 30, 2019	July 1, 2018
<b>Operating Activities</b>		
Net income including noncontrolling interest	\$ 617,152	\$ 574,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	144,346	150,996
Stock-based compensation expense	23,712	23,546
Deferred income taxes	8,783	1,080
Impairment of long-lived assets (see Note 6)	4,741	27,168
Write-down of equity investments	9,785	19,764
Other	24,117	14,212
Changes in assets and liabilities, net of business acquisitions and divestitures:		
Accounts receivable—trade, net	55,399	100,864
Inventories	(173,074)	(147,090)
Prepaid expenses and other current assets	18,175	(25,966)
Accounts payable and accrued liabilities	(33,797)	(162,054)
Accrued income taxes	(15,499)	54,079
Contributions to pension and other benefit plans	(8,919)	(14,079)
Other assets and liabilities	4,407	(13,676)
Net cash provided by operating activities	<u>679,328</u>	<u>602,882</u>
<b>Investing Activities</b>		
Capital additions (including software)	(176,270)	(135,919)
Proceeds from sales of property, plant and equipment and other long-lived assets	154	16,123
Equity investments in tax credit qualifying partnerships	(30,270)	(29,027)
Business acquisitions, net of cash and cash equivalents acquired	—	(915,457)
Net cash used in investing activities	<u>(206,386)</u>	<u>(1,064,280)</u>
<b>Financing Activities</b>		
Net (decrease) increase in short-term debt	(311,183)	491,100
Long-term borrowings	5,020	1,199,921
Repayment of long-term debt and finance leases	(4,054)	(606,540)
Repayment of tax receivable obligation	—	(72,000)
Cash dividends paid	(295,483)	(267,879)
Repurchase of common stock	(254,429)	(199,665)
Exercise of stock options	161,399	8,222
Net cash (used in) provided by financing activities	<u>(698,730)</u>	<u>553,159</u>
Effect of exchange rate changes on cash and cash equivalents	3,753	(4,588)
(Decrease) Increase in cash and cash equivalents	(222,035)	87,173
Cash and cash equivalents, beginning of period	587,998	380,179
Cash and cash equivalents, end of period	<u>\$ 365,963</u>	<u>\$ 467,352</u>
<b>Supplemental Disclosure</b>		
Interest paid	\$ 72,167	\$ 61,452
Income taxes paid	136,922	70,398

See Notes to Unaudited Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
For the Three Months Ended June 30, 2019 and July 1, 2018  
(in thousands)  
(unaudited)

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Stockholders' Equity
<b>Balance, April 1, 2019</b>	—	299,287	60,614	996,181	7,193,240	(6,786,065)	(348,520)	8,623	1,423,360
Net income					312,840			431	313,271
Other comprehensive income (loss)							11,784	(93)	11,691
Dividends (including dividend equivalents):									
Common Stock, \$0.722 per share					(108,041)				(108,041)
Class B Common Stock, \$0.656 per share					(39,762)				(39,762)
Stock-based compensation				12,665					12,665
Exercise of stock options and incentive-based transactions				66,341		60,485			126,826
Repurchase of common stock						(55,929)			(55,929)
<b>Balance, June 30, 2019</b>	<u>\$ —</u>	<u>\$ 299,287</u>	<u>\$ 60,614</u>	<u>\$ 1,075,187</u>	<u>\$ 7,358,277</u>	<u>\$ (6,781,509)</u>	<u>\$ (336,736)</u>	<u>\$ 8,961</u>	<u>\$ 1,684,081</u>

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Stockholders' Equity
<b>Balance, April 2, 2018</b>	—	299,281	60,620	925,965	6,634,316	(6,593,579)	(354,475)	17,527	989,655
Net income (loss)					226,855			(3,536)	223,319
Other comprehensive income (loss)							(13,343)	(118)	(13,461)
Dividends (including dividend equivalents):									
Common Stock, \$0.656 per share					(97,915)				(97,915)
Class B Common Stock, \$0.596 per share					(36,129)				(36,129)
Stock-based compensation				13,602					13,602
Exercise of stock options and incentive-based transactions				479		5,859			6,338
Repurchase of common stock						(21,592)			(21,592)
<b>Balance, July 1, 2018</b>	<u>\$ —</u>	<u>\$ 299,281</u>	<u>\$ 60,620</u>	<u>\$ 940,046</u>	<u>\$ 6,727,127</u>	<u>\$ (6,609,312)</u>	<u>\$ (367,818)</u>	<u>\$ 13,873</u>	<u>\$ 1,063,817</u>

See Notes to Unaudited Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
For the Six Months Ended June 30, 2019 and July 1, 2018  
(in thousands)  
(unaudited)

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Stockholders' Equity
<b>Balance, December 31, 2018</b>	—	299,287	60,614	982,205	7,032,020	(6,618,625)	(356,780)	8,545	1,407,266
Net income (loss)					617,198			(46)	617,152
Other comprehensive income							20,044	462	20,506
Dividends (including dividend equivalents):									
Common Stock, \$1.444 per share					(215,329)				(215,329)
Class B Common Stock, \$1.312 per share					(79,525)				(79,525)
Stock-based compensation				23,128					23,128
Exercise of stock options and incentive-based transactions				69,854		91,545			161,399
Repurchase of common stock						(254,429)			(254,429)
Impact of ASU 2016-02 related to leases					3,913				3,913
<b>Balance, June 30, 2019</b>	<u>\$ —</u>	<u>\$ 299,287</u>	<u>\$ 60,614</u>	<u>\$ 1,075,187</u>	<u>\$ 7,358,277</u>	<u>\$ (6,781,509)</u>	<u>\$ (336,736)</u>	<u>\$ 8,961</u>	<u>\$ 1,684,081</u>
	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Stockholders' Equity
<b>Balance, December 31, 2017</b>	—	299,281	60,620	924,978	6,371,082	(6,426,877)	(313,746)	16,227	931,565
Net income (loss)					577,058			(3,020)	574,038
Other comprehensive income (loss)							(6,416)	666	(5,750)
Dividends (including dividend equivalents):									
Common Stock, \$1.312 per share					(196,410)				(196,410)
Class B Common Stock, \$1.192 per share					(72,259)				(72,259)
Stock-based compensation				24,076					24,076
Exercise of stock options and incentive-based transactions				(9,008)		17,230			8,222
Repurchase of common stock						(199,665)			(199,665)
Reclassification of tax effects relating to U.S. tax reform					47,656		(47,656)		—
<b>Balance, July 1, 2018</b>	<u>\$ —</u>	<u>\$ 299,281</u>	<u>\$ 60,620</u>	<u>\$ 940,046</u>	<u>\$ 6,727,127</u>	<u>\$ (6,609,312)</u>	<u>\$ (367,818)</u>	<u>\$ 13,873</u>	<u>\$ 1,063,817</u>

See Notes to Unaudited Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(amounts in thousands, except share data or if otherwise indicated)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The unaudited consolidated financial statements provided in this report include the accounts of The Hershey Company (the “Company,” “Hershey,” “we” or “us”) and our majority-owned subsidiaries and entities in which we have a controlling financial interest after the elimination of intercompany accounts and transactions. We have a controlling financial interest if we own a majority of the outstanding voting common stock and the noncontrolling shareholders do not have substantive participating rights, or we have significant control over an entity through contractual or economic interests in which we are the primary beneficiary.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. The financial statements reflect all adjustments (consisting of normal recurring adjustments) which are, in our opinion, necessary for a fair presentation of the results of operations, financial position, and cash flows for the indicated periods.

Operating results for the quarter ended June 30, 2019 may not be indicative of the results that may be expected for the year ending December 31, 2019 because of seasonal effects on our business. These financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018 (our “2018 Annual Report on Form 10-K”), which provides a more complete understanding of our accounting policies, financial position, operating results and other matters.

**Recent Accounting Pronouncements**

***Recently Adopted Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use (“ROU”) assets. The Company adopted the standard as of January 1, 2019, using a modified retrospective approach and applying the standard’s transition provisions at January 1, 2019, the effective date.

We elected the package of practical expedients permitted under the transition guidance, which among other things, allows us to carryforward the historical lease classification. In addition, we made accounting policy elections to combine the lease and non-lease components for asset categories that support selling, marketing and general administrative activities. These asset categories comprise the majority of our leases. Finally, we made elections to exclude from balance sheet reporting those leases with initial terms of 12 months or less.

Adoption of the new standard resulted in the recording of operating lease ROU assets and lease liabilities of \$227,258 and \$216,966, respectively, with the difference largely due to prepaid and deferred rent that were reclassified to the ROU asset value. In addition, we derecognized a build-to-suit arrangement in accordance with the transition requirements, which resulted in an adjustment to retained earnings of \$3,913. The standard did not materially affect our consolidated net income or cash flows. See Note 7 for further details.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which amends ASC 815. The purpose of this ASU is to better align accounting rules with a company’s risk management activities and financial reporting for hedging relationships, better reflect economic results of hedging in financial statements, simplify hedge accounting requirements and improve the disclosures of hedging arrangements. We adopted the provisions of this ASU in the first quarter of 2019 using a modified retrospective approach. Adoption of the new standard did not have a material impact on our consolidated financial statements.

**THE HERSHEY COMPANY**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(amounts in thousands, except share data or if otherwise indicated)**

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. We adopted the provisions of this ASU in the first quarter of 2019. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU permits a company to reclassify the income tax effects of the 2017 Tax Cuts and Jobs Act (“U.S. tax reform”) on items within AOCI to retained earnings. We adopted the provisions of this ASU in the first quarter of 2018. We elected to reclassify the income tax effects of U.S. tax reform from items in AOCI as of January 1, 2018 so that the tax effects of items within AOCI are reflected at the appropriate tax rate. The impact of the reclassification resulted in a \$47,656 decrease to AOCI and a corresponding increase to retained earnings.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU modifies the measurement of expected credit losses of certain financial instruments. ASU 2016-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. The amendments in this ASU should be applied on a modified retrospective basis to all periods presented. We are currently evaluating the effect that ASU 2016-13 will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU 2018-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We are currently evaluating the effect that ASU 2018-13 will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. ASU 2018-14 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. The amendments in this ASU should be applied on a retrospective basis to all periods presented. We are currently evaluating the effect that ASU 2018-14 will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the effect that ASU 2018-15 will have on our consolidated financial statements and related disclosures.

No other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on our consolidated financial statements or disclosures.

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**2. BUSINESS ACQUISITIONS**

**2018 Activity**

Pirate Brands

On October 17, 2018, we completed the acquisition of Pirate Brands, which includes the *Pirate's Booty*, *Smart Puffs* and *Original Tings* brands, from B&G Foods, Inc. Pirate Brands offers baked, trans fat free and gluten free snacks and is available in a wide range of food distribution channels in the United States. The purchase consideration for Pirate Brands totaled \$423,002 and consisted of short-term borrowings and cash on hand. Acquisition-related costs for the Pirate Brands acquisition were immaterial.

The acquisition has been accounted for as a purchase and, accordingly, Pirate Brands' results of operations have been included within the North America segment results in our consolidated financial statements since the date of acquisition. The purchase price allocation presented below has been finalized as of the end of the fourth quarter of 2018. The purchase consideration was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Inventories	\$	4,663
Plant, property and equipment, net		48
Goodwill		129,991
Other intangible assets		289,300
Accrued liabilities		(1,000)
Net assets acquired	\$	<u>423,002</u>

Goodwill was determined as the excess of the purchase price over the fair value of the net assets acquired (including the identifiable intangible assets). The goodwill derived from this acquisition is expected to be deductible for tax purposes and reflects the value of leveraging the Company's resources to expand the distribution locations and customer base for the Pirate Brands' products.

Other intangible assets includes trademarks valued at \$272,000 and customer relationships valued at \$17,300. Trademarks were assigned estimated useful lives of 45 years and customer relationships were assigned estimated useful lives ranging from 16 to 18 years.

Amplify Snack Brands, Inc.

On January 31, 2018, we completed the acquisition of all of the outstanding shares of Amplify Snack Brands, Inc. ("Amplify"), previously a publicly traded company based in Austin, Texas that owns several popular better-for-you snack brands such as *SkinnyPop*, *Oatmega* and *Paqui*. Amplify's anchor brand, *SkinnyPop*, is a market-leading ready-to-eat popcorn brand and is available in a wide range of food distribution channels in the United States. Total consideration of \$968,781 included payment of \$12.00 per share for Amplify's outstanding common stock (for a total of \$907,766), as well as payment of Amplify's transaction related expenses, including accelerated equity compensation, consultant fees and other deal costs. The business enables us to capture more consumer snacking occasions by contributing a new portfolio of brands.

The acquisition has been accounted for as a purchase and, accordingly, Amplify's results of operations have been included within the North America segment results in our consolidated financial statements since the date of acquisition. The purchase price allocation presented below has been finalized as of the end of the fourth quarter of 2018. The purchase consideration, net of cash acquired totaling \$53,324, was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

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Accounts receivable	\$	40,763
Other current assets		34,593
Plant, property and equipment, net		67,989
Goodwill		966,389
Other intangible assets		682,000
Other non-current assets		1,049
Accounts payable		(32,394)
Accrued liabilities		(132,519)
Current debt		(610,844)
Other current liabilities		(2,931)
Non-current deferred income taxes		(93,489)
Non-current liabilities		(5,149)
Net assets acquired	\$	915,457

In connection with the acquisition, the Company agreed to pay in full all outstanding debt owed by Amplify under its existing credit agreement as of January 31, 2018, as well as the amount due under Amplify's existing tax receivable obligation. The Company funded the acquisition and repayment of the acquired debt utilizing proceeds from the issuance of commercial paper.

Goodwill was determined as the excess of the purchase price over the fair value of the net assets acquired (including the identifiable intangible assets) and is not expected to be deductible for tax purposes. The goodwill that resulted from the acquisition is attributable primarily to cost-reduction synergies as Amplify leverages Hershey's resources, expertise and capability-building.

Other intangible assets includes trademarks valued at \$648,000 and customer relationships valued at \$34,000. Trademarks were assigned estimated useful lives ranging from 28 to 38 years and customer relationships were assigned estimated useful lives ranging from 14 to 18 years.

The Company incurred acquisition-related costs of \$20,577 related to the acquisition of Amplify, the majority of which were incurred during the first quarter of 2018. Acquisition-related costs consisted primarily of legal fees, consultant fees, valuation fees and other deal costs and are recorded in the selling, marketing and administrative expense caption within the Consolidated Statements of Operations.

### 3. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying value of goodwill by reportable segment for the six months ended June 30, 2019 are as follows:

	North America	International and Other	Total
Balance at December 31, 2018	\$ 1,782,845	\$ 18,258	\$ 1,801,103
Foreign currency translation	4,535	317	4,852
Balance at June 30, 2019	\$ 1,787,380	\$ 18,575	\$ 1,805,955

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The following table provides the gross carrying amount and accumulated amortization for each major class of intangible asset:

	June 30, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets subject to amortization:</b>				
Trademarks	\$ 1,175,847	\$ (79,057)	\$ 1,173,770	\$ (60,995)
Customer-related	165,319	(39,371)	163,860	(33,516)
Patents	16,647	(16,281)	16,306	(15,772)
<b>Total</b>	<b>1,357,813</b>	<b>(134,709)</b>	<b>1,353,936</b>	<b>(110,283)</b>
<b>Intangible assets not subject to amortization:</b>				
Trademarks	34,764		34,639	
<b>Total other intangible assets</b>	<b>\$ 1,257,868</b>		<b>\$ 1,278,292</b>	

Total amortization expense for the three months ended June 30, 2019 and July 1, 2018 was \$12,672 and \$9,834, respectively. Total amortization expense for the six months ended June 30, 2019 and July 1, 2018 was \$24,910 and \$18,285, respectively.

#### **4. SHORT AND LONG-TERM DEBT**

##### **Short-term Debt**

As a source of short-term financing, we utilize cash on hand and commercial paper or bank loans with an original maturity of three months or less. As of June 30, 2019, we maintained a \$1.4 billion unsecured revolving credit facility. On July 2, 2019, we terminated this facility, which was scheduled to expire in November 2020, and entered into a new unsecured revolving credit facility. The new facility allows the Company to borrow up to \$1.5 billion with the option to increase borrowings by an additional \$500 million with the consent of the lenders. This facility is scheduled to expire on July 2, 2024, however, we may extend the termination date for up to two additional one-year periods upon notice to the administrative agent under the facility.

The credit agreement contains certain financial and other covenants, customary representations, warranties and events of default. As of June 30, 2019, we were in compliance with all covenants pertaining to the credit agreement, and we had no significant compensating balance agreements that legally restricted these funds. For more information, refer to the Consolidated Financial Statements included in our 2018 Annual Report on Form 10-K.

In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial banks. We had short-term foreign bank loans against these lines of credit for \$135,778 at June 30, 2019 and \$113,189 at December 31, 2018. Commitment fees relating to our revolving credit facility and lines of credit are not material.

At June 30, 2019, we had outstanding commercial paper totaling \$751,001, at a weighted average interest rate of 2.4%. At December 31, 2018, we had outstanding commercial paper totaling \$1,084,740, at a weighted average interest rate of 2.4%.

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**Long-term Debt**

Long-term debt consisted of the following:

	June 30, 2019	December 31, 2018
2.90% Notes due 2020	\$ 350,000	\$ 350,000
4.125% Notes due 2020	350,000	350,000
3.10% Notes due 2021	350,000	350,000
8.8% Debentures due 2021	84,715	84,715
3.375% Notes due 2023	500,000	500,000
2.625% Notes due 2023	250,000	250,000
3.20% Notes due 2025	300,000	300,000
2.30% Notes due 2026	500,000	500,000
7.2% Debentures due 2027	193,639	193,639
3.375% Notes due 2046	300,000	300,000
Finance lease liabilities	79,218	101,980
Net impact of interest rate swaps, debt issuance costs and unamortized debt discounts	(16,343)	(20,667)
<b>Total long-term debt</b>	<b>3,241,229</b>	<b>3,259,667</b>
Less—current portion	353,186	5,387
<b>Long-term portion</b>	<b>\$ 2,888,043</b>	<b>\$ 3,254,280</b>

**Interest Expense**

Net interest expense consists of the following:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Interest expense	\$ 39,192	\$ 38,098	\$ 79,855	\$ 70,951
Capitalized interest	(1,391)	(1,334)	(2,648)	(2,633)
Interest expense	37,801	36,764	77,207	68,318
Interest income	(4,025)	(1,812)	(5,973)	(4,027)
<b>Interest expense, net</b>	<b>\$ 33,776</b>	<b>\$ 34,952</b>	<b>\$ 71,234</b>	<b>\$ 64,291</b>

**5. DERIVATIVE INSTRUMENTS**

We are exposed to market risks arising principally from changes in foreign currency exchange rates, interest rates and commodity prices. We use certain derivative instruments to manage these risks. These include interest rate swaps to manage interest rate risk, foreign currency forward exchange contracts to manage foreign currency exchange rate risk, and commodities futures and options contracts to manage commodity market price risk exposures.

In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by entering into exchanged-traded contracts with collateral posting requirements and/or by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. We do not expect any significant losses from counterparty defaults.

**Commodity Price Risk**

We enter into commodities futures and options contracts and other commodity derivative instruments to reduce the effect of future price fluctuations associated with the purchase of raw materials, energy requirements and

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transportation services. We generally hedge commodity price risks for 3- to 24-month periods. Our open commodity derivative contracts had a notional value of \$734,733 as of June 30, 2019 and \$693,463 as of December 31, 2018.

Derivatives used to manage commodity price risk are not designated for hedge accounting treatment. Therefore, the changes in fair value of these derivatives are recorded as incurred within cost of sales. As discussed in Note 13, we define our segment income to exclude gains and losses on commodity derivatives until the related inventory is sold, at which time the related gains and losses are reflected within segment income. This enables us to continue to align the derivative gains and losses with the underlying economic exposure being hedged and thereby eliminate the mark-to-market volatility within our reported segment income.

**Foreign Exchange Price Risk**

We are exposed to foreign currency exchange rate risk related to our international operations, including non-functional currency intercompany debt and other non-functional currency transactions of certain subsidiaries. Principal currencies hedged include the euro, Canadian dollar, Japanese yen, British pound, Brazilian real, Malaysian ringgit and Mexican Peso. We typically utilize foreign currency forward exchange contracts to hedge these exposures for periods ranging from 3 to 12 months. The contracts are either designated as cash flow hedges or are undesignated. The net notional amount of foreign exchange contracts accounted for as cash flow hedges was \$99,496 at June 30, 2019 and \$29,458 at December 31, 2018. The effective portion of the changes in fair value on these contracts is recorded in other comprehensive income and reclassified into earnings in the same period in which the hedged transactions affect earnings. The net notional amount of foreign exchange contracts that are not designated as accounting hedges was \$32,938 at June 30, 2019 and \$11,072 at December 31, 2018. The change in fair value on these instruments is recorded directly in cost of sales or selling, marketing and administrative expense, depending on the nature of the underlying exposure.

**Interest Rate Risk**

We manage our targeted mix of fixed and floating rate debt with debt issuances and by entering into fixed-to-floating interest rate swaps in order to mitigate fluctuations in earnings and cash flows that may result from interest rate volatility. These swaps are designated as fair value hedges, for which the gain or loss on the derivative and the offsetting loss or gain on the hedged item are recognized in current earnings as interest expense (income), net. We had one interest rate derivative instrument in a fair value hedging relationship with a notional amount of \$350,000 at June 30, 2019 and December 31, 2018.

In order to manage interest rate exposure, in previous years we utilized interest rate swap agreements to protect against unfavorable interest rate changes relating to forecasted debt transactions. These swaps, which were settled upon issuance of the related debt, were designated as cash flow hedges and the gains and losses that were deferred in other comprehensive income are being recognized as an adjustment to interest expense over the same period that the hedged interest payments affect earnings.

**Equity Price Risk**

We are exposed to market price changes in certain broad market indices related to our deferred compensation obligations to our employees. To mitigate this risk, we use equity swap contracts to hedge the portion of the exposure that is linked to market-level equity returns. These contracts are not designated as hedges for accounting purposes and are entered into for periods of 3 to 12 months. The change in fair value of these derivatives is recorded in selling, marketing and administrative expense, together with the change in the related liabilities. The notional amount of the contracts outstanding at June 30, 2019 and December 31, 2018 was \$26,708 and \$33,168, respectively.

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The following table presents the classification of derivative assets and liabilities within the Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018	
	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
<b>Derivatives designated as cash flow hedging instruments:</b>				
Foreign exchange contracts	\$ 66	\$ 2,397	\$ 3,394	\$ 485
<b>Derivatives designated as fair value hedging instruments:</b>				
Interest rate swap agreements	26	—	—	4,832
<b>Derivatives not designated as hedging instruments:</b>				
Commodities futures and options (2)	674	6,509	7,230	262
Deferred compensation derivatives	973	—	—	4,736
Foreign exchange contracts	—	651	70	484
	1,647	7,160	7,300	5,482
<b>Total</b>	<b>\$ 1,739</b>	<b>\$ 9,557</b>	<b>\$ 10,694</b>	<b>\$ 10,799</b>

- (1) Derivatives assets are classified on our balance sheet within prepaid expenses and other as well as other assets. Derivative liabilities are classified on our balance sheet within accrued liabilities and other long-term liabilities.
- (2) As of June 30, 2019, amounts reflected on a net basis in liabilities were assets of \$49,752 and liabilities of \$56,261, which are associated with cash transfers receivable or payable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for the period. The comparable amounts reflected on a net basis in assets at December 31, 2018 were assets of \$63,978 and liabilities of \$57,351. At June 30, 2019 and December 31, 2018, the remaining amount reflected in assets and liabilities related to the fair value of other non-exchange traded derivative instruments, respectively.

**Income Statement Impact of Derivative Instruments**

The effect of derivative instruments on the Consolidated Statements of Income for the three months ended June 30, 2019 and July 1, 2018 was as follows:

	Non-designated Hedges		Cash Flow Hedges			
	Gains (losses) recognized in income (a)		Gains (losses) recognized in other comprehensive income ("OCI")		Gains (losses) reclassified from accumulated OCI into income (b)	
	2019	2018	2019	2018	2019	2018
Commodities futures and options	\$ 55,531	\$ 183	\$ —	\$ —	\$ —	\$ —
Foreign exchange contracts	(526)	137	(2,547)	3,559	975	(93)
Interest rate swap agreements	—	—	—	—	(2,370)	(2,370)
Deferred compensation derivatives	(2,070)	1,199	—	—	—	—
<b>Total</b>	<b>\$ 52,935</b>	<b>\$ 1,519</b>	<b>\$ (2,547)</b>	<b>\$ 3,559</b>	<b>\$ (1,395)</b>	<b>\$ (2,463)</b>

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The effect of derivative instruments on the Consolidated Statements of Income for the six months ended June 30, 2019 and July 1, 2018 was as follows:

	Non-designated Hedges		Cash Flow Hedges			
	Gains (losses) recognized in income (a)		Gains (losses) recognized in other comprehensive income ("OCI")		Gains (losses) reclassified from accumulated OCI into income (b)	
	2019	2018	2019	2018	2019	2018
Commodities futures and options	\$ 28,890	\$ 66,773	\$ —	\$ —	\$ —	\$ —
Foreign exchange contracts	(311)	(15)	(3,336)	7,804	1,906	43
Interest rate swap agreements	—	—	—	—	(4,739)	(4,766)
Deferred compensation derivatives	973	806	—	—	—	—
<b>Total</b>	<b>\$ 29,552</b>	<b>\$ 67,564</b>	<b>\$ (3,336)</b>	<b>\$ 7,804</b>	<b>\$ (2,833)</b>	<b>\$ (4,723)</b>

- (a) Gains (losses) recognized in income for non-designated commodities futures and options contracts were included in cost of sales. Gains (losses) recognized in income for non-designated foreign currency forward exchange contracts and deferred compensation derivatives were included in selling, marketing and administrative expenses.
- (b) Gains (losses) reclassified from AOCI into income for foreign currency forward exchange contracts were included in selling, marketing and administrative expenses. Losses reclassified from AOCI into income for interest rate swap agreements were included in interest expense.

The amount of pretax net losses on derivative instruments, including interest rate swap agreements and foreign currency forward exchange contracts expected to be reclassified into earnings in the next 12 months was approximately \$11,810 as of June 30, 2019. This amount is primarily associated with interest rate swap agreements.

Fair Value Hedging Relationships

The following table presents amounts that were recorded on the balance sheet related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of June 30, 2019 and December 31, 2018.

Line Item in the Consolidated Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Asset/(Liability)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount Assets/(Liabilities)	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Long-term debt	\$ (349,974)	\$ (354,832)	\$ 26	\$ (4,832)

For the three months ended June 30, 2019 and July 1, 2018, we recognized net incremental interest expense of \$584 and \$153, respectively, relating to our fixed-to-floating interest swap arrangements. For the six months ended June 30, 2019 and July 1, 2018, we recognized net incremental interest expense of \$1,214 and a net benefit to interest expense of \$125 relating to our fixed-to-floating interest swap arrangements.

**6. FAIR VALUE MEASUREMENTS**

Accounting guidance on fair value measurements requires that financial assets and liabilities be classified and disclosed in one of the following categories of the fair value hierarchy:

*Level 1* – Based on unadjusted quoted prices for identical assets or liabilities in an active market.

*Level 2* – Based on observable market-based inputs or unobservable inputs that are corroborated by market data.

*Level 3* – Based on unobservable inputs that reflect the entity's own assumptions about the assumptions that a market participant would use in pricing the asset or liability.

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We did not have any level 3 financial assets or liabilities, nor were there any transfers between levels during the periods presented.

The following table presents assets and liabilities that were measured at fair value in the Consolidated Balance Sheet on a recurring basis as of June 30, 2019 and December 31, 2018:

	Assets (Liabilities)			
	Level 1	Level 2	Level 3	Total
<b>June 30, 2019:</b>				
Derivative Instruments:				
Assets:				
Foreign exchange contracts (1)	\$ —	\$ 66	\$ —	\$ 66
Interest rate swap agreements (2)	—	26	—	26
Deferred compensation derivatives (3)	—	973	—	973
Commodities futures and options (4)	674	—	—	674
Liabilities:				
Foreign exchange contracts (1)	—	3,048	—	3,048
Commodities futures and options (4)	6,509	—	—	6,509
<b>December 31, 2018:</b>				
Assets:				
Foreign exchange contracts (1)	\$ —	\$ 3,464	\$ —	\$ 3,464
Commodities futures and options (4)	7,230	—	—	7,230
Liabilities:				
Foreign exchange contracts (1)	—	969	—	969
Interest rate swap agreements (2)	—	4,832	—	4,832
Deferred compensation derivatives (3)	—	4,736	—	4,736
Commodities futures and options (4)	262	—	—	262

- (1) The fair value of foreign currency forward exchange contracts is the difference between the contract and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign currency forward exchange contracts on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences.
- (2) The fair value of interest rate swap agreements represents the difference in the present value of cash flows calculated at the contracted interest rates and at current market interest rates at the end of the period. We calculate the fair value of interest rate swap agreements quarterly based on the quoted market price for the same or similar financial instruments.
- (3) The fair value of deferred compensation derivatives is based on quoted prices for market interest rates and a broad market equity index.
- (4) The fair value of commodities futures and options contracts is based on quoted market prices.

**Other Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair values as of June 30, 2019 and December 31, 2018 because of the relatively short maturity of these instruments.

The estimated fair value of our long-term debt is based on quoted market prices for similar debt issues and is, therefore, classified as Level 2 within the valuation hierarchy. The fair values and carrying values of long-term debt, including the current portion, were as follows:

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	Fair Value		Carrying Value	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Current portion of long-term debt	\$ 354,634	\$ 5,387	\$ 353,186	\$ 5,387
Long-term debt	3,000,018	3,228,877	2,888,043	3,254,280
<b>Total</b>	<b>\$ 3,354,652</b>	<b>\$ 3,234,264</b>	<b>\$ 3,241,229</b>	<b>\$ 3,259,667</b>

**Other Fair Value Measurements**

In addition to assets and liabilities that are recorded at fair value on a recurring basis, GAAP requires that, under certain circumstances, we also record assets and liabilities at fair value on a nonrecurring basis.

During the second quarter of 2019, we recorded impairment charges totaling \$4,741. These charges 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 after the divestiture of Tyrrells in July 2018. We have recorded a liability for the settlement payment, which we expect to pay in 2019.

In connection with the acquisitions of Amplify in the first quarter of 2018 and Pirate Brands in the fourth quarter of 2018, as discussed in Note 2, we used various valuation techniques to determine fair value, with the primary techniques being discounted cash flow analysis, relief-from-royalty, and a form of the multi-period excess earnings valuation approaches, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. In connection with disposal groups previously classified as held for sale, during the second quarter of 2018, we recorded impairment charges totaling \$27,168 to adjust the long-lived asset values within the Shanghai Golden Monkey ("SGM") and Tyrrells disposal groups. These charges represented the excess of the disposal groups' carrying values, including the related currency translation adjustment amounts to be realized upon completion of the sales, over the estimated fair values less costs to sell for the respective businesses. The fair values of the disposal groups were supported by the sales prices agreed with the third-party buyers. In July 2018, we sold the SGM and Tyrrells businesses.

**7. LEASES**

We lease office and retail space, warehouse and distribution facilities, land, vehicles, and equipment. We determine if an agreement is or contains a lease at inception. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are based on the estimated present value of lease payments over the lease term and are recognized at the lease commencement date.

As most of our leases do not provide an implicit rate, we use our estimated incremental borrowing rate in determining the present value of lease payments. The estimated incremental borrowing rate is derived from information available at the lease commencement date.

Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. A limited number of our lease agreements include rental payments adjusted periodically for inflation. Our lease agreements generally do not contain residual value guarantees or material restrictive covenants.

For real estate, equipment and vehicles that support selling, marketing and general administrative activities the Company accounts for the lease and non-lease components as a single lease component. These asset categories comprise the majority of our leases. The lease and non-lease components of real estate and equipment leases supporting production activities are not accounted for as a single lease component. Consideration for such contracts are allocated to the lease component and non-lease components based upon relative standalone prices either observable or estimated if observable prices are not readily available.

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The components of lease expense were as follows:

Lease expense	Classification	Three Months Ended		Six Months Ended	
		June 30, 2019		June 30, 2019	
Operating lease cost	Cost of sales or SM&A (1)	\$	10,273	\$	20,487
Finance lease cost:					
Amortization of ROU assets	Depreciation and amortization (1)		1,884		3,818
Interest on lease liabilities	Interest expense, net		1,112		2,213
Net lease cost (2)		\$	13,269	\$	26,518

(1) Supply chain-related amounts were included in cost of sales.

(2) Net lease cost does not include short-term leases, variable lease costs or sublease income, all of which are immaterial.

Information regarding our lease terms and discount rates were as follows:

	June 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	13.9
Finance leases	31.6
Weighted-average discount rate	
Operating leases	3.8%
Finance leases	5.9%

Supplemental balance sheet information related to leases were as follows:

Leases	Classification	June 30, 2019	
<b>Assets</b>			
Operating lease ROU assets	Other assets (non-current)	\$	232,034
Finance lease ROU assets, at cost	Property, plant and equipment, gross		100,501
Accumulated amortization	Accumulated depreciation		(3,502)
Finance lease ROU assets, net	Property, plant and equipment, net	\$	96,999
Total leased assets		\$	329,033
<b>Liabilities</b>			
Current			
Operating	Accrued liabilities	\$	28,603
Finance	Current portion of long-term debt		3,820
Non-current			
Operating	Other long-term liabilities		194,665
Finance	Long-term debt		75,398
Total lease liabilities		\$	302,486

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The maturity of our lease liabilities as of June 30, 2019 were as follows:

	Operating leases	Finance leases	Total
2019 (remaining of year)	\$ 19,036	\$ 3,895	\$ 22,931
2020	33,087	6,980	40,067
2021	29,094	5,746	34,840
2022	15,795	4,642	20,437
2023	13,807	4,613	18,420
Thereafter	185,742	170,193	355,935
Total lease payments	296,561	196,069	492,630
Less: Imputed interest	73,293	116,851	190,144
Total lease liabilities	\$ 223,268	\$ 79,218	\$ 302,486

Supplemental cash flow and other information related to leases were as follows:

	Six Months Ended June 30, 2019
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows from operating leases	\$ 19,142
Operating cash flows from finance leases	2,213
Financing cash flows from finance leases	1,920
<b>ROU assets obtained in exchange for lease liabilities:</b>	
Operating leases	21,838
Finance leases	3,498

#### 8. ASSETS AND LIABILITIES HELD FOR SALE

As of June 30, 2019, the following disposal groups have been classified as held for sale, in each case stated at the lower of net book value or estimated sales value less costs to sell:

- The Lotte Shanghai Foods Co., Ltd. joint venture, which was taken out of operation and classified as held for sale during the second quarter of 2018. We sold a portion of the joint venture's equipment in the third and fourth quarters of 2018, as well as the second quarter of 2019 and expect the sale of the remaining business to be completed during 2019.
- Other assets, which are predominantly comprised of select Pennsylvania facilities and land that met the held for sale criteria in the third quarter of 2018. We expect these long-lived assets to be sold during 2019.

The amounts classified as assets and liabilities held for sale at June 30, 2019 include the following:

<b>Assets held for sale, included in prepaid expenses and other assets</b>	
Property, plant and equipment, net	\$ 20,905
Other assets	2,434
	\$ 23,339
<b>Liabilities held for sale, included in accrued liabilities</b>	
Accounts payable and accrued liabilities	\$ 376
	\$ 376

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**9. BUSINESS REALIGNMENT ACTIVITIES**

We periodically undertake business realignment activities designed to increase our efficiency and focus our business in support of our key growth strategies. Costs recorded during the three and six months ended June 30, 2019 and July 1, 2018 related to these activities were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
<b>Margin for Growth Program:</b>				
Severance	\$ 5,823	\$ 3,014	\$ 5,823	\$ 7,062
Accelerated depreciation	—	6,527	—	7,244
Other program costs	555	5,117	1,039	15,205
<b>Operational Optimization Program:</b>				
Other program costs	—	638	—	1,736
<b>Total</b>	<b>\$ 6,378</b>	<b>\$ 15,296</b>	<b>\$ 6,862</b>	<b>\$ 31,247</b>

Margin for Growth Program

In the first quarter 2017, the Company's Board of Directors ("Board") unanimously approved several initiatives under a single program designed to drive continued net sales, operating income 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.

We originally estimated that the Margin for Growth Program would result in total pre-tax charges of \$375,000 to \$425,000, to be incurred from 2017 to 2019. The majority of the initiatives relating to the program have been executed, with the final initiatives to be completed over the next several months. To date, we have incurred pre-tax charges to execute the program totaling \$343,157. This includes long-lived asset impairment charges of \$208,712 related to the operations supporting our China business in 2017, as well as the \$16,300 incremental impairment charge resulting from the sale of Shanghai Golden Monkey Food Joint Stock Co., Ltd. ("SGM"). In addition to the impairment charges, we have incurred employee separation costs of \$53,755 and other business realignment costs of \$64,390. We expect the remaining spending on this program to be minimal in 2019. The cash portion of the total program charges is estimated to be \$101,000. The Company reduced its global workforce by approximately 15% as a result of this program, with a majority of the reductions coming from hourly headcount positions outside of the United States.

For the three and six months ended June 30, 2019, we recognized total costs associated with the Margin for Growth Program of \$6,378 and \$6,862, respectively. During 2018, we recognized total costs associated with the Margin for Growth Program of \$14,658 and \$29,511 for the three and six months ended July 1, 2018, respectively. These charges include employee severance, largely relating to initiatives to improve the cost structure of our China business and to further streamline our corporate operating model, as well as non-cash, asset-related incremental depreciation expense as part of optimizing the global supply chain. In addition, we incurred other program costs, which relate primarily to third-party charges in support of our initiative to improve global efficiency and effectiveness.

2016 Operational Optimization Program

In the second quarter of 2016, we commenced a program (the "Operational Optimization Program") to optimize our production and supply chain network, which included select facility consolidations. The program encompassed the transition of our China chocolate and SGM operations into a united *Golden Hershey* platform, including the integration of the China sales force, as well as workforce planning efforts and the consolidation of production within certain facilities in China and North America. For the three and six months ended July 1, 2018, we incurred pre-tax costs totaling \$638 and \$1,736, respectively, relating primarily to third-party charges in support of our initiative to optimize our production and supply chain network. This program was completed in 2018.

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Costs associated with business realignment activities are classified in our Consolidated Statements of Income as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Cost of sales	\$ —	\$ 7,322	\$ —	\$ 9,536
Selling, marketing and administrative expense	238	6,994	660	12,507
Business realignment costs	6,140	980	6,202	9,204
Costs associated with business realignment activities	\$ 6,378	\$ 15,296	\$ 6,862	\$ 31,247

The costs and related benefits of the Margin for Growth Program relate approximately 63% to the North America segment and 37% to the International and Other segment. However, segment operating results do not include these business realignment expenses because we evaluate segment performance excluding such costs.

The following table presents the liability activity for costs qualifying as exit and disposal costs for the six months ended June 30, 2019:

	<b>Total</b>
Liability balance at December 31, 2018	\$ 14,605
2019 business realignment charges (1)	6,862
Cash payments	(8,489)
Liability balance at June 30, 2019 (reported within accrued liabilities)	\$ 12,978

(1) The costs reflected in the liability roll-forward represent employee-related and certain third-party service provider charges.

## 10. INCOME TAXES

The majority of our taxable income is generated in the U.S. and taxed at the U.S. statutory rate of 21%. The effective tax rates for the six months ended June 30, 2019 and July 1, 2018 were 18.7% and 19.1%, respectively. Relative to the statutory rate, the 2019 effective tax rate was impacted by a change to foreign valuation allowances, the benefit of ASU 2016-09 for accounting of employee share-based payment, and investment tax credits, which were partially offset by state taxes.

Hershey and its subsidiaries file tax returns in the U.S., including various state and local returns, and in other foreign jurisdictions. We believe adequate provision has been made for all income tax uncertainties. We are routinely audited by taxing authorities in our filing jurisdictions, and a number of these audits are currently underway. We reasonably expect reductions in the liability for unrecognized tax benefits of approximately \$11,267 within the next 12 months because of the expiration of statutes of limitations and settlements of tax audits.

### U.S. Tax Cuts and Jobs Act of 2017

The U.S. Tax Cuts and Jobs Act, enacted in December 2017 (“U.S. tax reform”), significantly changed U.S. corporate income tax laws by, among other things, reducing the U.S. corporate income tax rate to 21% starting in 2018 and creating a territorial tax system with a one-time mandatory tax on previously deferred foreign earnings of U.S. subsidiaries. Under GAAP (specifically, ASC Topic 740), the effects of changes in tax rates and laws on deferred tax balances are recognized in the period in which the new legislation is enacted.

During the fourth quarter of 2017, we recorded a net provisional charge of \$32.5 million, which included the estimated impact of the one-time mandatory tax on previously deferred earnings of non-U.S. subsidiaries offset in part by the benefit from revaluation of net deferred tax liabilities based on the new lower corporate income tax rate. During 2018, we recorded net benefits totaling \$19.5 million as measurement period adjustments to the net provisional charge. The accounting for income tax effects of U.S. tax reform is complete based on additional tax regulations available as of December 31, 2018.

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**11. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS**

**Net Periodic Benefit Cost**

The components of net periodic benefit cost for the three months ended June 30, 2019 and July 1, 2018 were as follows:

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Service cost	\$ 5,210	\$ 5,324	\$ 37	\$ 58
Interest cost	9,150	7,827	1,959	1,732
Expected return on plan assets	(13,493)	(14,752)	—	—
Amortization of prior service (credit) cost	(1,808)	(1,799)	203	209
Amortization of net loss (gain)	8,421	6,884	(96)	—
Total net periodic benefit cost	<u>\$ 7,480</u>	<u>\$ 3,484</u>	<u>\$ 2,103</u>	<u>\$ 1,999</u>

We made contributions of \$272 and \$3,986 to the pension plans and other benefits plans, respectively, during the second quarter of 2019. In the second quarter of 2018, we made contributions of \$296 and \$6,334 to our pension plans and other benefit plans, respectively. The contributions in 2019 and 2018 also included benefit payments from our non-qualified pension plans and post-retirement benefit plans.

The components of net periodic benefit cost for the six months ended June 30, 2019 and July 1, 2018 were as follows:

	Pension Benefits		Other Benefits	
	Six Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Service cost	\$ 10,417	\$ 10,659	\$ 75	\$ 116
Interest cost	18,306	15,666	3,918	3,464
Expected return on plan assets	(26,989)	(29,518)	—	—
Amortization of prior service (credit) cost	(3,617)	(3,598)	406	418
Amortization of net loss (gain)	16,841	13,371	(192)	—
Total net periodic benefit cost	<u>\$ 14,958</u>	<u>\$ 6,580</u>	<u>\$ 4,207</u>	<u>\$ 3,998</u>

We made contributions of \$1,170 and \$7,749 to the pension plans and other benefits plans, respectively, during the first six months of 2019. In the first six months of 2018, we made contributions of \$1,301 and \$12,778 to our pension plans and other benefit plans, respectively. The contributions in 2019 and 2018 also included benefit payments from our non-qualified pension plans and post-retirement benefit plans.

**12. STOCK COMPENSATION PLANS**

We have various stock-based compensation programs under which awards, including stock options, performance stock units (“PSUs”) and performance stock, stock appreciation rights, restricted stock units (“RSUs”) and restricted stock may be granted to employees, non-employee directors and certain service providers upon whom the successful conduct of our business is dependent. These programs and the accounting treatment related thereto are described in Note 10 to the Consolidated Financial Statements included in our 2018 Annual Report on Form 10-K.

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For the periods presented, compensation expense for all types of stock-based compensation programs and the related income tax benefit recognized were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Pre-tax compensation expense	\$ 13,156	\$ 13,088	\$ 23,712	\$ 23,546
Related income tax benefit	2,160	2,364	4,482	4,968

Compensation costs for stock compensation plans are primarily included in selling, marketing and administrative expense. As of June 30, 2019, total stock-based compensation cost related to non-vested awards not yet recognized was \$76,244 and the weighted-average period over which this amount is expected to be recognized was approximately 2.2 years.

**Stock Options**

A summary of activity relating to grants of stock options for the period ended June 30, 2019 is as follows:

Stock Options	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	5,394,382	\$94.28	5.6 years	
Granted	1,640	\$109.74		
Exercised	(2,001,947)	\$88.01		
Forfeited	(63,264)	\$101.62		
Outstanding as of June 30, 2019	3,330,811	\$97.91	5.7 years	\$ 120,304
Options exercisable as of June 30, 2019	2,244,965	\$96.41	4.6 years	\$ 84,449

The weighted-average fair value of options granted was \$15.25 and \$15.57 per share for the periods ended June 30, 2019 and July 1, 2018, respectively. The fair value was estimated on the date of grant using a Black-Scholes option-pricing model and the following weighted-average assumptions:

	Six Months Ended	
	June 30, 2019	July 1, 2018
Dividend yields	2.7%	2.3%
Expected volatility	17.0%	16.6%
Risk-free interest rates	2.5%	2.8%
Expected term in years	6.5	6.6

The total intrinsic value of options exercised was \$67,117 and \$12,386 for the periods ended June 30, 2019 and July 1, 2018, respectively.

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**Performance Stock Units and Restricted Stock Units**

A summary of activity relating to grants of PSUs and RSUs for the period ended June 30, 2019 is as follows:

Performance Stock Units and Restricted Stock Units	Number of units	Weighted-average grant date fair value for equity awards (per unit)
Outstanding at beginning of year	999,018	\$101.57
Granted	442,672	\$113.71
Performance assumption change (1)	53,544	\$138.83
Vested	(372,037)	\$99.00
Forfeited	(55,481)	\$108.73
Outstanding as of June 30, 2019	1,067,716	\$109.19

(1) Reflects the net number of PSUs above and below target levels based on the performance metrics.

The following table sets forth information about the fair value of the PSUs and RSUs granted for potential future distribution to employees and non-employee directors. In addition, the table provides assumptions used to determine the fair value of the market-based total shareholder return component using the Monte Carlo simulation model on the date of grant.

	Six Months Ended	
	June 30, 2019	July 1, 2018
Units granted	442,672	361,068
Weighted-average fair value at date of grant	\$ 113.71	\$ 97.92
Monte Carlo simulation assumptions:		
Estimated values	\$ 48.40	\$ 29.17
Dividend yields	2.6%	2.6%
Expected volatility	20.3%	20.4%

The fair value of shares vested totaled \$40,163 and \$19,740 for the periods ended June 30, 2019 and July 1, 2018, respectively.

Deferred PSUs, deferred RSUs and deferred stock units representing directors' fees totaled 338,651 units as of June 30, 2019. Each unit is equivalent to one share of the Company's Common Stock.

**13. SEGMENT INFORMATION**

Our organizational structure is designed to ensure continued focus on North America, coupled with an emphasis on profitable growth in our focus international markets. Our business is organized around geographic regions, which enables us to build processes for repeatable success in our global markets. As a result, we have defined our operating segments on a geographic basis, as this aligns with how our Chief Operating Decision Maker ("CODM") manages our business, including resource allocation and performance assessment. Our North America business, which generates approximately 89% of our consolidated revenue, is our only reportable segment. None of our other operating segments meet the quantitative thresholds to qualify as reportable segments; therefore, these operating segments are combined and disclosed below as International and Other.

- **North America** - This segment is responsible for our traditional chocolate and non-chocolate confectionery market position, as well as our grocery and growing snacks market positions, in the United States and Canada. This includes developing and growing our business in chocolate and non-chocolate confectionery, pantry, food service and other snacking product lines.
- **International and Other** - International and Other is a combination of all other operating segments that are not individually material, including those geographic regions where we operate outside of North America. We currently have operations and manufacture product in China, Mexico, Brazil, India and Malaysia, primarily for consumers in these regions, and also distribute and sell confectionery products in export markets

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of Asia, Latin America, Middle East, Europe, Africa and other regions. This segment also includes our global retail operations, including Hershey's Chocolate World stores in Hershey, Pennsylvania, New York City, Las Vegas, Niagara Falls (Ontario) and Singapore, as well as operations associated with licensing the use of certain of the Company's trademarks and products to third parties around the world.

For segment reporting purposes, we use "segment income" to evaluate segment performance and allocate resources. Segment income excludes unallocated general corporate administrative expenses, unallocated mark-to-market gains and losses on commodity derivatives, business realignment and impairment charges, acquisition-related costs and other unusual gains or losses that are not part of our measurement of segment performance. These items of our operating income are managed centrally at the corporate level and are excluded from the measure of segment income reviewed by the CODM as well the measure of segment performance used for incentive compensation purposes.

As discussed in Note 5, derivatives used to manage commodity price risk are not designated for hedge accounting treatment. These derivatives are recognized at fair market value with the resulting realized and unrealized (gains) losses recognized in unallocated derivative (gains) losses outside of the reporting segment results until the related inventory is sold, at which time the related gains and losses are reallocated to segment income. This enables us to align the derivative gains and losses with the underlying economic exposure being hedged and thereby eliminate the mark-to-market volatility within our reported segment income.

Certain manufacturing, warehousing, distribution and other activities supporting our global operations are integrated to maximize efficiency and productivity. As a result, assets and capital expenditures are not managed on a segment basis and are not included in the information reported to the CODM for the purpose of evaluating performance or allocating resources. We disclose depreciation and amortization that is generated by segment-specific assets, since these amounts are included within the measure of segment income reported to the CODM.

Our segment net sales and earnings were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
<b>Net sales:</b>				
North America	\$ 1,568,040	\$ 1,559,952	\$ 3,374,998	\$ 3,311,640
International and Other	199,177	191,663	408,707	411,934
<b>Total</b>	<b>\$ 1,767,217</b>	<b>\$ 1,751,615</b>	<b>\$ 3,783,705</b>	<b>\$ 3,723,574</b>
<b>Segment income:</b>				
North America	\$ 470,898	\$ 443,859	\$ 1,035,659	\$ 978,285
International and Other	21,944	16,627	42,187	34,307
<b>Total segment income</b>	<b>492,842</b>	<b>460,486</b>	<b>1,077,846</b>	<b>1,012,592</b>
Unallocated corporate expense (1)	122,879	121,006	237,383	244,973
Unallocated mark-to-market gains on commodity derivatives	(53,552)	(20,831)	(25,585)	(117,081)
Long-lived asset impairment charges	4,741	27,168	4,741	27,168
Costs associated with business realignment activities	6,378	15,296	6,862	31,247
Acquisition-related costs	2,326	4,781	5,506	32,707
Gain on sale of licensing rights	—	(2,658)	—	(2,658)
<b>Operating profit</b>	<b>410,070</b>	<b>315,724</b>	<b>848,939</b>	<b>796,236</b>
Interest expense, net	33,776	34,952	71,234	64,291
Other (income) expense, net	13,125	20,766	18,602	22,708
<b>Income before income taxes</b>	<b>\$ 363,169</b>	<b>\$ 260,006</b>	<b>\$ 759,103</b>	<b>\$ 709,237</b>

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- (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.

Activity within the unallocated mark-to-market losses (gains) on commodity derivatives is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Net gains on mark-to-market valuation of commodity derivative positions recognized in income	\$ (55,531)	\$ (183)	\$ (28,890)	\$ (66,773)
Net gains (losses) on commodity derivative positions reclassified from unallocated to segment income	1,979	(20,648)	3,305	(50,308)
Net gains on mark-to-market valuation of commodity derivative positions recognized in unallocated derivative (gains) losses	\$ (53,552)	\$ (20,831)	\$ (25,585)	\$ (117,081)

As of June 30, 2019, the cumulative amount of mark-to-market gains on commodity derivatives that have been recognized in our consolidated cost of sales and not yet allocated to reportable segments was \$65,903. Based on our forecasts of the timing of the recognition of the underlying hedged items, we expect to reclassify net pretax gains on commodity derivatives of \$21,714 to segment operating results in the next twelve months.

Depreciation and amortization expense included within segment income presented above is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
North America	\$ 55,137	\$ 52,186	\$ 109,082	\$ 100,171
International and Other	7,314	6,542	14,664	20,830
Corporate (1)	9,566	17,852	20,600	29,995
Total	\$ 72,017	\$ 76,580	\$ 144,346	\$ 150,996

- (1) Corporate includes non-cash asset-related accelerated depreciation and amortization related to business realignment activities, as discussed in Note 9. Such amounts are not included within our measure of segment income.

#### 14. TREASURY STOCK ACTIVITY

A summary of our treasury stock activity is as follows:

	Six Months Ended June 30, 2019	
	Shares	Dollars
	In thousands	
Shares repurchased in the open market under pre-approved share repurchase programs	1,386,193	\$ 150,000
Shares repurchased to replace Treasury Stock issued for stock options and incentive compensation	883,305	104,429
Total share repurchases	2,269,498	254,429
Shares issued for stock options and incentive compensation	(2,200,072)	(91,545)
Net change	69,426	\$ 162,884

The \$100,000 share repurchase program approved by our Board of Directors in October 2017 was completed in the first quarter of 2019. In July 2018, our Board of Directors approved an additional \$500,000 share repurchase authorization, to commence after the existing 2017 authorization was completed. As of June 30, 2019, \$410,000 remained available for repurchases of our Common Stock under this program. We are authorized to purchase our

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outstanding shares in open market and privately negotiated transactions. The program has no expiration date and acquired shares of Common Stock will be held as treasury shares. Purchases under approved share repurchase authorizations are in addition to our practice of buying back shares sufficient to offset those issued under incentive compensation plans.

**15. NONCONTROLLING INTEREST**

**Noncontrolling Interest in Subsidiary**

We currently own a 50% controlling interest in Lotte Shanghai Foods Co., Ltd. (“LSFC”), a joint venture established in 2007 in China for the purpose of manufacturing and selling product to the joint venture partners.

A roll-forward showing the 2019 activity relating to the noncontrolling interest follows:

		<b>Noncontrolling Interest</b>
Balance, December 31, 2018	\$	8,545
Net loss attributable to noncontrolling interest		(46)
Other comprehensive income - foreign currency translation adjustments		462
Balance, June 30, 2019	\$	8,961

**16. CONTINGENCIES**

We are subject to various pending or threatened legal proceedings and claims that arise in the ordinary course of our business. While it is not feasible to predict or determine the outcome of such proceedings and claims with certainty, in our opinion these matters, both individually and in the aggregate, are not expected to have a material effect on our financial condition, results of operations or cash flows.

**17. EARNINGS PER SHARE**

We compute basic earnings per share for Common Stock and Class B common stock using the two-class method. The Class B common stock is convertible into Common Stock on a share-for-share basis at any time. The computation of diluted earnings per share for Common Stock assumes the conversion of Class B common stock using the if-converted method, while the diluted earnings per share of Class B common stock does not assume the conversion of those shares.

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We compute basic and diluted earnings per share based on the weighted-average number of shares of Common Stock and Class B common stock outstanding as follows:

	Three Months Ended			
	June 30, 2019		July 1, 2018	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Basic earnings per share:				
Numerator:				
Allocation of distributed earnings (cash dividends paid)	\$ 109,258	\$ 39,762	\$ 97,450	\$ 36,129
Allocation of undistributed earnings	119,616	44,204	68,097	25,179
Total earnings—basic	<u>\$ 228,874</u>	<u>\$ 83,966</u>	<u>\$ 165,547</u>	<u>\$ 61,308</u>
Denominator (shares in thousands):				
Total weighted-average shares—basic	149,025	60,614	148,948	60,620
Earnings Per Share—basic	<u>\$ 1.54</u>	<u>\$ 1.39</u>	<u>\$ 1.11</u>	<u>\$ 1.01</u>
Diluted earnings per share:				
Numerator:				
Allocation of total earnings used in basic computation	\$ 228,874	\$ 83,966	\$ 165,547	\$ 61,308
Reallocation of total earnings as a result of conversion of Class B common stock to Common stock	83,966	—	61,308	—
Reallocation of undistributed earnings	—	(254)	—	(100)
Total earnings—diluted	<u>\$ 312,840</u>	<u>\$ 83,712</u>	<u>\$ 226,855</u>	<u>\$ 61,208</u>
Denominator (shares in thousands):				
Number of shares used in basic computation	149,025	60,614	148,948	60,620
Weighted-average effect of dilutive securities:				
Conversion of Class B common stock to Common shares outstanding	60,614	—	60,620	—
Employee stock options	817	—	559	—
Performance and restricted stock units	361	—	251	—
Total weighted-average shares—diluted	<u>210,817</u>	<u>60,614</u>	<u>210,378</u>	<u>60,620</u>
Earnings Per Share—diluted	<u>\$ 1.48</u>	<u>\$ 1.38</u>	<u>\$ 1.08</u>	<u>\$ 1.01</u>

The earnings per share calculations for the three months ended June 30, 2019 and July 1, 2018 excluded 47 and 4,196 stock options (in thousands), respectively, that would have been antidilutive.

**THE HERSHEY COMPANY**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(amounts in thousands, except share data or if otherwise indicated)

We compute basic and diluted earnings per share based on the weighted-average number of shares of Common Stock and Class B common stock outstanding as follows:

	Six Months Ended			
	June 30, 2019		July 1, 2018	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Basic earnings per share:				
Numerator:				
Allocation of distributed earnings (cash dividends paid)	\$ 215,958	\$ 79,525	\$ 195,620	\$ 72,259
Allocation of undistributed earnings	234,836	86,879	225,956	83,223
Total earnings—basic	<u>\$ 450,794</u>	<u>\$ 166,404</u>	<u>\$ 421,576</u>	<u>\$ 155,482</u>
Denominator (shares in thousands):				
Total weighted-average shares—basic	148,864	60,614	149,534	60,620
Earnings Per Share—basic	<u>\$ 3.03</u>	<u>\$ 2.75</u>	<u>\$ 2.82</u>	<u>\$ 2.56</u>
Diluted earnings per share:				
Numerator:				
Allocation of total earnings used in basic computation	\$ 450,794	\$ 166,404	\$ 421,576	\$ 155,482
Reallocation of total earnings as a result of conversion of Class B common stock to Common stock	166,404	—	155,482	—
Reallocation of undistributed earnings	—	(462)	—	(411)
Total earnings—diluted	<u>\$ 617,198</u>	<u>\$ 165,942</u>	<u>\$ 577,058</u>	<u>\$ 155,071</u>
Denominator (shares in thousands):				
Number of shares used in basic computation	148,864	60,614	149,534	60,620
Weighted-average effect of dilutive securities:				
Conversion of Class B common stock to Common shares outstanding	60,614	—	60,620	—
Employee stock options	699	—	702	—
Performance and restricted stock units	391	—	314	—
Total weighted-average shares—diluted	<u>210,568</u>	<u>60,614</u>	<u>211,170</u>	<u>60,620</u>
Earnings Per Share—diluted	<u>\$ 2.93</u>	<u>\$ 2.74</u>	<u>\$ 2.73</u>	<u>\$ 2.56</u>

The earnings per share calculations for the six months ended June 30, 2019 and July 1, 2018 excluded 1,476 and 4,196 stock options (in thousands), respectively, that would have been antidilutive.

**THE HERSHEY COMPANY**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(amounts in thousands, except share data or if otherwise indicated)

**18. OTHER (INCOME) EXPENSE, NET**

Other (income) expense, net reports certain gains and losses associated with activities not directly related to our core operations. A summary of the components of other (income) expense, net is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Write-down of equity investments in partnerships qualifying for tax credits	\$ 8,633	\$ 19,330	\$ 9,785	\$ 19,764
Non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans	4,336	(98)	8,673	(196)
Other (income) expense, net	156	1,534	144	3,140
<b>Total</b>	<b>\$ 13,125</b>	<b>\$ 20,766</b>	<b>\$ 18,602</b>	<b>\$ 22,708</b>

**THE HERSHEY COMPANY**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(amounts in thousands, except share data or if otherwise indicated)

**19. SUPPLEMENTAL BALANCE SHEET INFORMATION**

The components of certain Consolidated Balance Sheet accounts are as follows:

	June 30, 2019	December 31, 2018
<b>Inventories:</b>		
Raw materials	\$ 264,526	\$ 237,086
Goods in process	155,142	107,139
Finished goods	710,211	618,798
Inventories at FIFO	1,129,879	963,023
Adjustment to LIFO	(171,926)	(178,144)
Total inventories	<u>\$ 957,953</u>	<u>\$ 784,879</u>
<b>Prepaid expenses and other:</b>		
Prepaid expenses	\$ 52,940	\$ 68,490
Assets held for sale	23,339	23,421
Other current assets	154,617	180,248
Total prepaid expenses and other	<u>\$ 230,896</u>	<u>\$ 272,159</u>
<b>Property, plant and equipment:</b>		
Land	\$ 103,232	\$ 102,074
Buildings	1,224,227	1,211,011
Machinery and equipment	3,044,187	2,988,027
Construction in progress	247,668	280,559
Property, plant and equipment, gross	4,619,314	4,581,671
Accumulated depreciation	(2,512,129)	(2,451,377)
Property, plant and equipment, net	<u>\$ 2,107,185</u>	<u>\$ 2,130,294</u>
<b>Other assets:</b>		
Capitalized software, net	\$ 137,193	\$ 126,379
Operating lease ROU assets	232,034	—
Other non-current assets	130,076	126,605
Total other assets	<u>\$ 499,303</u>	<u>\$ 252,984</u>
<b>Accrued liabilities:</b>		
Payroll, compensation and benefits	\$ 156,329	\$ 180,546
Advertising, promotion and product allowances	275,082	286,028
Operating lease liabilities	28,603	—
Liabilities held for sale	376	596
Other	190,532	211,993
Total accrued liabilities	<u>\$ 650,922</u>	<u>\$ 679,163</u>
<b>Other long-term liabilities:</b>		
Post-retirement benefits liabilities	\$ 191,900	\$ 195,166
Pension benefits liabilities	66,312	66,379
Operating lease liabilities	194,665	—
Other	184,036	184,503
Total other long-term liabilities	<u>\$ 636,913</u>	<u>\$ 446,048</u>
<b>Accumulated other comprehensive loss:</b>		
Foreign currency translation adjustments	\$ (86,061)	\$ (96,678)
Pension and post-retirement benefit plans, net of tax	(195,372)	(205,230)
Cash flow hedges, net of tax	(55,303)	(54,872)
Total accumulated other comprehensive loss	<u>\$ (336,736)</u>	<u>\$ (356,780)</u>

## **Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Management’s Discussion and Analysis (“MD&A”) is intended to provide an understanding of Hershey’s financial condition, results of operations and cash flows by focusing on changes in certain key measures from year to year. The MD&A should be read in conjunction with our Unaudited Consolidated Financial Statements and accompanying notes. This discussion contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. Refer to the Safe Harbor Statement below as well as the Risk Factors and other information contained in our 2018 Annual Report on Form 10-K for information concerning the key risks to achieving future performance goals.

The MD&A is organized in the following sections:

- Overview
- Consolidated Results of Operations
- Segment Results
- Non-GAAP Information
- Liquidity and Capital Resources

### **OVERVIEW**

Hershey is a global confectionery leader known for bringing goodness to the world through chocolate, sweets, mints, gum and other great tasting snacks. We are the largest producer of quality chocolate in North America, a leading snack maker in the United States and a global leader in chocolate and non-chocolate confectionery. We market, sell and distribute our products under more than 80 brand names in approximately 90 countries worldwide.

Our principal product offerings include chocolate and non-chocolate confectionery products; gum and mint refreshment products; pantry items, such as baking ingredients, toppings and beverages; and snack items such as spreads, meat snacks, bars and snack bites and mixes, popcorn and protein bars and cookies.

## CONSOLIDATED RESULTS OF OPERATIONS

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	June 30, 2019	July 1, 2018		June 30, 2019	July 1, 2018	
<b>In millions of dollars except per share amounts</b>						
Net Sales	\$ 1,767.2	\$ 1,751.6	0.9 %	\$ 3,783.7	\$ 3,723.6	1.6 %
Cost of Sales	892.5	958.2	(6.9)%	2,016.5	1,956.1	3.1 %
Gross Profit	874.7	793.4	10.2 %	1,767.2	1,767.5	— %
<i>Gross Margin</i>	49.5%	45.3%		46.7%	47.5%	
SM&A Expense	453.8	449.5	0.9 %	907.4	934.9	(2.9)%
<i>SM&amp;A Expense as a percent of net sales</i>	25.7%	25.7%		24.0%	25.1%	
Long-Lived Asset Impairment Charges	4.7	27.2	(82.5)%	4.7	27.2	(82.5)%
Business Realignment Costs	6.1	1.0	526.5 %	6.2	9.2	(32.6)%
Operating Profit	410.1	315.7	29.9 %	848.9	796.2	6.6 %
<i>Operating Profit Margin</i>	23.2%	18.0%		22.4%	21.4%	
Interest Expense, Net	33.8	35.0	(3.4)%	71.2	64.3	10.8 %
Other (Income) Expense, Net	13.1	20.8	(36.8)%	18.6	22.7	(18.1)%
Provision for Income Taxes	49.9	36.7	36.0 %	141.9	135.2	5.0 %
<i>Effective Income Tax Rate</i>	13.7%	14.1%		18.7%	19.1%	
Net Income Including Noncontrolling Interest	313.3	223.2	40.3 %	617.2	574.0	7.5 %
Less: Net Income (Loss) Attributable to Noncontrolling Interest	0.4	(3.5)	NM	—	(3.0)	NM
Net Income Attributable to The Hershey Company	\$ 312.9	\$ 226.7	37.9 %	\$ 617.2	\$ 577.0	7.0 %
Net Income Per Share—Diluted	\$ 1.48	\$ 1.08	37.0 %	\$ 2.93	\$ 2.73	7.3 %

Note: Percentage changes may not compute directly as shown due to rounding of amounts presented above.

NM = not meaningful.

### **Results of Operations - Second Quarter 2019 vs. Second Quarter 2018**

#### **Net Sales**

Net sales increased 0.9% in the second quarter of 2019 compared to the same period of 2018, reflecting a favorable price realization of 1.2% due to higher prices on certain products and a volume increase of 0.6%, partially offset by an unfavorable net impact of acquisitions and divestitures of 0.6% and an unfavorable impact from foreign currency exchange rates of 0.3%. Excluding foreign currency, our second quarter 2019 net sales increased 1.2%. Consolidated volumes increased due to innovation growth in 2019, as well as solid marketplace growth in select international markets.

#### *Key U.S. Marketplace Metrics*

For the second quarter of 2019, our total U.S. retail takeaway, including Amplify, increased 17.1% in the expanded multi-outlet combined plus convenience store channels (IRI MULO + C-Stores), which includes candy, mint, gum, salty snacks, snack bars, meat snacks and grocery items. Our U.S. candy, mint and gum ("CMG") consumer takeaway increased 20.0%, resulting in a CMG market share gain of approximately 46 basis points.

The CMG consumer takeaway and market share information reflect measured channels of distribution accounting for approximately 90% of our U.S. confectionery retail business. These channels of distribution primarily include food, drug, mass merchandisers, and convenience store channels, plus Wal-Mart Stores, Inc., partial dollar, club and military channels. These metrics are based on measured market scanned purchases as reported by Information Resources,

Incorporated ("IRI"), the Company's market insights and analytics provider, and provide a means to assess our retail takeaway and market position relative to the overall category.

### **Cost of Sales and Gross Margin**

Cost of sales decreased 6.9% in the second quarter of 2019 compared to the same period of 2018. The decrease was driven by an incremental \$55.3 million favorable impact from mark-to-market adjustments on our commodity derivative instruments intended to economically hedge future years' commodity purchases and favorable supply chain productivity. These drivers were partially offset by higher freight and logistics costs and higher plant costs.

Gross margin increased by 420 basis points in the second quarter of 2019 compared to the same period of 2018. The increase was primarily due to favorable year-over-year mark-to-market impact from commodity derivative instruments, favorable product mix, and favorable supply chain productivity. These factors were partially offset by higher freight and logistic costs.

### **Selling, Marketing and Administrative**

Selling, marketing and administrative ("SM&A") expenses increased \$4.2 million or 0.9% in the second quarter of 2019. Total advertising and related consumer marketing expenses increased 5.6% driven by advertising increases in both North America and International and Other markets. Selling, marketing and administrative expenses, excluding advertising and related consumer marketing, decreased approximately 1.4% in the second quarter due to less spending from the Margin for Growth Program and lower acquisition-related costs.

### **Long-Lived Asset Impairment Charges**

During the second quarter of 2019, we recorded long-lived asset impairment charges of \$4.7 million, 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 after the divestiture of Tyrrells in July 2018. In the second quarter of 2018, we recorded long-lived asset impairment charges of \$27.2 million associated with the SGM and Tyrrells disposal groups. These charges represented the excess of the disposal groups' carrying values, including the related currency translation adjustment amounts to be realized upon completion of the sales, over the estimated fair values less costs to sell for the respective businesses. In July 2018, we sold the SGM and Tyrrells businesses.

### **Business Realignment Activities**

In the second quarter of 2019 and 2018, we recorded business realignment costs of \$6.1 million and \$1.0 million, respectively. The costs related primarily to the Margin for Growth Program, which is discussed in more detail in Note 9 to the Unaudited Consolidated Financial Statements.

### **Operating Profit and Operating Profit Margin**

Operating profit increased 29.9% in the second quarter of 2019 compared to the same period of 2018 due to higher gross profit and lower long-lived asset impairment charges, partially offset by higher business realignment costs in the 2019 period and higher SM&A, as noted above. Operating profit margin increased to 23.2% in 2019 from 18.0% in 2018 driven by these same factors.

### **Interest Expense, Net**

Net interest expense was \$1.2 million lower in the second quarter of 2019 compared to the same period of 2018. The decrease was due to higher interest income related to an international local tax settlement, as well as lower levels of commercial paper and outstanding long-term debt.

### **Other (Income) Expense, Net**

Other (income) expense, net totaled expense of \$13.1 million in the second quarter of 2019 versus expense of \$20.8 million in the second quarter of 2018. The decrease in the net expense was primarily due to lower write-downs on equity investments qualifying for federal historic and energy tax credits, partially offset by higher non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans during 2019.

## **Income Taxes and Effective Tax Rate**

Our effective income tax rate was 13.7% for the second quarter of 2019 compared with 14.1% for the second quarter of 2018. Relative to the statutory rate, the 2019 effective tax rate was impacted by a change to foreign valuation allowances, the benefit of ASU 2016-09 for accounting of employee share-based payment, and investment tax credits, which were partially offset by state taxes.

## **Net Income attributable to The Hershey Company and Earnings Per Share-diluted**

Net income increased \$86.0 million, or 37.9%, while EPS-diluted increased \$0.40, or 37.0%, in the second quarter of 2019 compared to the same period of 2018. The increase in both net income and EPS-diluted was driven primarily by higher operating profit, which were partly offset by higher income taxes, as noted above.

## **Results of Operations - First Six Months 2019 vs. First Six Months 2018**

### **Net Sales**

Net sales increased 1.6% in the first six months of 2019 compared to the same period of 2018, reflecting a volume increase of 1.1%, favorable price realization of 0.8% due to higher prices on certain products, and a 0.2% benefit from net acquisitions and divestitures, partially offset by unfavorable impact from foreign currency exchange rates of 0.5%. Excluding foreign currency, our first six months of 2019 net sales increased 2.1%. Consolidated volumes increased due to stronger Easter sales and innovation growth in 2019, as well as solid marketplace growth in select international markets.

### **Cost of Sales and Gross Margin**

Cost of sales increased 3.1% in the first six months of 2019 compared to the same period of 2018. The increase was driven by a \$37.9 million unfavorable impact from mark-to-market adjustments on our commodity derivative instruments intended to economically hedge future years' commodity purchases, higher sales volume, higher freight and logistics costs and higher plant costs. These drivers were partially offset by supply chain productivity.

Gross margin decreased by 80 basis points in the first six months of 2019 compared to the same period of 2018. The decrease was primarily due to higher freight and logistic costs and unfavorable year-over-year mark-to-market impact from commodity derivative instruments. These factors were partially offset by favorable supply chain productivity and favorable product mix.

### **Selling, Marketing and Administrative**

Selling, marketing and administrative ("SM&A") expenses decreased \$27.5 million or 2.9% in the first six months of 2019. Total advertising and related consumer marketing expenses increased 2.2% driven by advertising increases in both North America and International and Other markets. Selling, marketing and administrative expenses, excluding advertising and related consumer marketing, decreased approximately 5.7% in the first six months of 2019 due to less spending from the Margin for Growth Program and lower acquisition-related costs.

### **Long-Lived Asset Impairment Charges**

During the first six months of 2019, we recorded long-lived asset impairment charges of \$4.7 million, 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 after the divestiture of Tyrrells in July 2018. During the first six months of 2018, we recorded long-lived asset impairment charges of \$27.2 million associated with the SGM and Tyrrells disposal groups. These charges represented the excess of the disposal groups' carrying values, including the related currency translation adjustment amounts to be realized upon completion of the sales, over the estimated fair values less costs to sell for the respective businesses. In July 2018, we sold the SGM and Tyrrells businesses.

### **Business Realignment Activities**

In the first six months of 2019 and 2018, we recorded business realignment costs of \$6.2 million and \$9.2 million, respectively. The costs related primarily to the Margin for Growth Program, which is discussed in more detail in Note 9 to the Unaudited Consolidated Financial Statements.

### **Operating Profit and Operating Profit Margin**

Operating profit increased 6.6% in the first six months of 2019 compared to the same period of 2018 due to lower SM&A, lower long-lived asset impairment charges, and lower business realignment cost in the 2019 period, as noted above. Operating profit margin increased to 22.4% in 2019 from 21.4% in 2018 driven by these same factors.

### **Interest Expense, Net**

Net interest expense was \$6.9 million higher in the first six months of 2019 compared to the same period of 2018. The increase was due to \$1.2 billion of notes issued in May 2018, as well as higher interest rates on our short-term debt.

### **Other (Income) Expense, Net**

Other (income) expense, net totaled expense of \$18.6 million in the first six months of 2019 versus expense of \$22.7 million in the first six months of 2018. The decrease in the net expense was primarily due to lower write-downs on equity investments qualifying for federal historic and energy tax credits, partially offset by higher non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans during 2019.

### **Income Taxes and Effective Tax Rate**

Our effective income tax rate was 18.7% for the first six months of 2019 compared with 19.1% for the first six months of 2018. Relative to the statutory rate, the 2019 effective tax rate was impacted by a change to foreign valuation allowances, the benefit of ASU 2016-09 for accounting of employee share-based payment, and investment tax credits, which were partially offset by state taxes.

### **Net Income attributable to The Hershey Company and Earnings Per Share-diluted**

Net income increased \$40.1 million, or 7.0%, while EPS-diluted increased \$0.20, or 7.3%, in the first six months of 2019 compared to the same period of 2018. The increase in both net income and EPS-diluted was driven primarily by higher operating profit, which was partly offset by higher interest expense and higher income taxes, as noted above.

### **SEGMENT RESULTS**

The summary that follows provides a discussion of the results of operations of our two reportable segments: North America and International and Other. The segments reflect our operations on a geographic basis. For segment reporting purposes, we use "segment income" to evaluate segment performance and allocate resources. Segment income excludes unallocated general corporate administrative expenses, unallocated mark-to-market gains and losses on commodity derivatives, business realignment and impairment charges, acquisition-related costs and other unusual gains or losses that are not part of our measurement of segment performance. These items of our operating income are largely managed centrally at the corporate level and are excluded from the measure of segment income reviewed by the CODM and used for resource allocation and internal management reporting and performance evaluation. Segment income and segment income margin, which are presented in the segment discussion that follows, are non-GAAP measures and do not purport to be alternatives to operating income as a measure of operating performance. We believe that these measures are useful to investors and other users of our financial information in evaluating ongoing operating profitability as well as in evaluating operating performance in relation to our competitors, as they exclude the activities that are not directly attributable to our ongoing segment operations. For further information, see the Non-GAAP Information section of this MD&A.

Our segment results, including a reconciliation to our consolidated results, were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
<b>Net Sales:</b>				
North America	\$ 1,568,040	\$ 1,559,952	\$ 3,374,998	\$ 3,311,640
International and Other	199,177	191,663	408,707	411,934
<b>Total</b>	<b>\$ 1,767,217</b>	<b>\$ 1,751,615</b>	<b>\$ 3,783,705</b>	<b>\$ 3,723,574</b>
<b>Segment Income:</b>				
North America	\$ 470,898	\$ 443,859	\$ 1,035,659	\$ 978,285
International and Other	21,944	16,627	42,187	34,307
<b>Total segment income</b>	<b>492,842</b>	<b>460,486</b>	<b>1,077,846</b>	<b>1,012,592</b>
Unallocated corporate expense (1)	122,879	121,006	237,383	244,973
Unallocated mark-to-market gains on commodity derivatives (2)	(53,552)	(20,831)	(25,585)	(117,081)
Long-lived and intangible asset impairment charges	4,741	27,168	4,741	27,168
Costs associated with business realignment activities	6,378	15,296	6,862	31,247
Acquisition-related costs	2,326	4,781	5,506	32,707
Gain on sale of licensing rights	—	(2,658)	—	(2,658)
<b>Operating profit</b>	<b>410,070</b>	<b>315,724</b>	<b>848,939</b>	<b>796,236</b>
Interest expense, net	33,776	34,952	71,234	64,291
Other (income) expense, net	13,125	20,766	18,602	22,708
<b>Income before income taxes</b>	<b>\$ 363,169</b>	<b>\$ 260,006</b>	<b>\$ 759,103</b>	<b>\$ 709,237</b>

- (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. See Note 13 to the Unaudited Consolidated Financial Statements.

## North America

The North America segment is responsible for our chocolate and non-chocolate confectionery market position, as well as our grocery and growing snacks market positions, in the United States and Canada. This includes developing and growing our business in chocolate and non-chocolate confectionery, pantry, food service and other snacking product lines. North America accounted for 88.7% and 89.1% of our net sales for the three months ended June 30, 2019 and July 1, 2018, respectively. North America results for the three and six months ended June 30, 2019 and July 1, 2018 were as follows:

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	June 30, 2019	July 1, 2018		June 30, 2019	July 1, 2018	
<b>In millions of dollars</b>						
Net sales	\$ 1,568.0	\$ 1,560.0	0.5%	\$ 3,375.0	\$ 3,311.6	1.9%
Segment income	470.9	443.9	6.1%	1,035.7	978.3	5.9%
Segment margin	30.0%	28.5%		30.7%	29.5%	

### **Results of Operations - Second Quarter 2019 vs. Second Quarter 2018**

Net sales of our North America segment increased \$8.0 million or 0.5% in 2019 compared to the same period in 2018, reflecting a favorable price realization of 1.5% attributed to higher prices on certain products. This was partially offset by a volume decrease of 0.5%, an unfavorable net impact of acquisitions and divestitures of 0.3% and an unfavorable impact from foreign currency exchange rates of 0.2%. Excluding the Pirate Brands acquisition and Tyrrells divestiture, our North America segment net sales increased 0.8%.

Our North America segment income increased \$27.0 million or 6.1% in 2019 compared to 2018, primarily due to favorable sales mix and price realization, as well as favorable commodity costs, partially offset by higher advertising expense, higher freight and logistics costs, higher supply chain-related costs and lower sales volume.

### **Results of Operations - First Six Months 2019 vs. First Six Months 2018**

Net sales of our North America segment increased \$63.4 million or 1.9% in 2019 compared to 2018, which includes a 0.7% benefit from net acquisitions and divestitures. Excluding the Amplify and Pirate Brands acquisitions and Tyrrells divestiture, our North America segment net sales increased 1.2%. Net price realization increased 0.9% attributed to higher prices on certain products. Volume increased 0.5% driven by stronger Easter sales and innovation growth in 2019. Foreign currency exchange rates resulted in an unfavorable impact of 0.2%.

Our North America segment income increased \$57.4 million or 5.9% in 2019 compared to 2018, primarily due to favorable sales mix and price realization and higher sales volume, as well as favorable commodity costs, partially offset by higher advertising expense, higher freight and logistics costs and higher supply chain-related costs.

## International and Other

The International and Other segment includes all other countries where we currently manufacture, import, market, sell or distribute chocolate and non-chocolate confectionery and other products. Currently, this includes our operations in China and other Asia markets, Latin America, Europe, Africa and the Middle East, along with exports to these regions. While a less significant component, this segment also includes our global retail operations, including Hershey's Chocolate World stores in Hershey, Pennsylvania, New York City, Las Vegas, Niagara Falls (Ontario) and Singapore, as well as operations associated with licensing the use of certain trademarks and products to third parties around the world. International and Other accounted for 11.3% and 10.9% of our net sales for the three months ended June 30, 2019 and July 1, 2018, respectively. International and Other results for the three and six months ended June 30, 2019 and July 1, 2018 were as follows:

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	June 30, 2019	July 1, 2018		June 30, 2019	July 1, 2018	
<b>In millions of dollars</b>						
Net sales	\$ 199.2	\$ 191.7	3.9%	\$ 408.7	\$ 411.9	(0.8)%
Segment income	21.9	16.6	31.9%	42.2	34.3	23.0 %
Segment margin	11.0%	8.7%		10.3%	8.3%	

### **Results of Operations - Second Quarter 2019 vs. Second Quarter 2018**

Net sales of our International and Other segment increased \$7.5 million or 3.9% in 2019 compared to the same period in 2018, reflecting a volume increase of 9.6%. This was partially offset by a 3.2% reduction in net sales primarily from the divestiture of SGM, an unfavorable price realization of 1.3% and unfavorable impact from foreign currency exchange rates of 1.2%. Excluding the divestiture of SGM and unfavorable foreign currency exchange rates, our International and Other segment net sales increased 8.3%. The volume increase was primarily attributed to solid marketplace growth in Mexico, India and Regional Markets where constant currency net sales increased by 6.7%, 3.6%, and 18.0%, respectively. The unfavorable net price realization was driven by increased levels of trade promotional spending compared to the prior year.

Our International and Other segment generated income of \$21.9 million in 2019 compared to \$16.6 million in 2018, with the improvement primarily resulting from our efforts to drive sustainable gross margin improvements as we executed our Margin for Growth program and optimized the product portfolio across various international markets. Additionally, segment income benefited from continued growth across Mexico, India and Regional Markets.

### **Results of Operations - First Six Months 2019 vs. First Six Months 2018**

Net sales of our International and Other segment decreased \$3.2 million or 0.8% in 2019 compared to the same period 2018, reflecting a 4.0% reduction in net sales primarily from the divestiture of SGM, an unfavorable impact from foreign currency exchange rates of 2.4%, and unfavorable price realization of 0.6%, partially offset by volume increases of 6.2%. Excluding the divestiture of SGM and unfavorable foreign currency exchange rates, our International and Other segment net sales increased 5.6%. The volume increase was primarily attributed to solid marketplace growth in Mexico, India and Regional Markets where constant currency net sales increased by 6.9%, 2.4% and 10.6%, respectively. The unfavorable net price realization was driven by increased levels of trade promotional spending compared to the prior year.

Our International and Other segment generated income of \$42.2 million in 2019 compared to \$34.3 million in 2018, with the improvement primarily resulting from our efforts to drive sustainable gross margin improvements as we executed our Margin for Growth program and optimized the product portfolio across various international markets. Additionally, segment income benefited from continued growth across Mexico, India and Regional Markets.

## **Unallocated Corporate Expense**

Unallocated corporate expense 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.

In the second quarter of 2019, unallocated corporate expense totaled \$122.9 million, as compared to \$121.0 million in 2018 primarily driven by compensation increases. In the first six months of 2019, unallocated corporate expense totaled \$237.4 million, as compared to \$245.0 million in the same period of 2018, primarily driven by savings from our productivity and cost savings initiatives.

## **NON-GAAP INFORMATION**

### **Comparability of Certain Financial Measures**

The comparability of certain of our financial measures is impacted by unallocated mark-to-market (gains) losses on commodity derivatives, costs associated with business realignment activities and costs relating to the integration of acquisitions.

To provide additional information to investors to facilitate the comparison of past and present performance, we use non-GAAP financial measures within MD&A that exclude the financial impact of these activities. These non-GAAP financial measures are used internally by management in evaluating results of operations and determining incentive compensation, and in assessing the impact of known trends and uncertainties on our business, but they are not intended to replace the presentation of financial results in accordance with GAAP. A reconciliation of the non-GAAP financial measures referenced in MD&A 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		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Reported gross profit	\$ 874,744	\$ 793,420	\$ 1,767,248	\$ 1,767,480
Derivative mark-to-market gains	(53,552)	(20,831)	(25,585)	(117,081)
Business realignment activities	—	7,322	—	9,536
Acquisition-related costs	—	25	56	4,987
Non-GAAP gross profit	\$ 821,192	\$ 779,936	\$ 1,741,719	\$ 1,664,922
Reported operating profit	\$ 410,070	\$ 315,724	\$ 848,939	\$ 796,236
Derivative mark-to-market gains	(53,552)	(20,831)	(25,585)	(117,081)
Business realignment activities	6,378	15,296	6,862	31,247
Acquisition-related costs	2,326	4,781	5,506	32,707
Long-lived asset impairment charges	4,741	27,168	4,741	27,168
Gain on sale of licensing rights	—	(2,658)	—	(2,658)
Non-GAAP operating profit	\$ 369,963	\$ 339,480	\$ 840,463	\$ 767,619
Reported provision for income taxes	\$ 49,898	\$ 36,687	\$ 141,951	\$ 135,199
Derivative mark-to-market gains*	(4,541)	(2,754)	(3,174)	(11,695)
Business realignment activities*	1,897	11,676	1,792	15,503
Acquisition-related costs*	557	1,076	1,316	6,479
Gain on sale of licensing rights*	—	(1,203)	—	(1,203)
Non-GAAP provision for income taxes	\$ 47,811	\$ 45,482	\$ 141,885	\$ 144,283
Reported net income	\$ 312,840	\$ 226,855	\$ 617,198	\$ 577,058
Derivative mark-to-market gains	(49,011)	(18,077)	(22,411)	(105,386)
Business realignment activities	4,481	3,619	5,070	15,743
Acquisition-related costs	1,769	3,705	4,190	26,228
Long-lived asset impairment charges	4,741	27,168	4,741	27,168
Noncontrolling interest share of business realignment and impairment charges	417	(1,246)	(16)	(790)
Gain on sale of licensing rights	—	(1,455)	—	(1,455)
Non-GAAP net income	\$ 275,237	\$ 240,569	\$ 608,772	\$ 538,566
Reported EPS - Diluted	\$ 1.48	\$ 1.08	\$ 2.93	\$ 2.73
Derivative mark-to-market gains	(0.25)	(0.10)	(0.12)	(0.55)
Business realignment activities	0.03	0.07	0.03	0.16
Acquisition-related costs	0.01	0.02	0.03	0.15
Long-lived asset impairment charges	0.02	0.13	0.02	0.13
Noncontrolling interest share of business realignment and impairment charges	—	(0.01)	—	—
Gain on sale of licensing rights	—	(0.01)	—	(0.01)
Tax effect of all adjustments reflected above**	0.02	(0.04)	—	(0.06)
Non-GAAP EPS - Diluted	\$ 1.31	\$ 1.14	\$ 2.89	\$ 2.55

\* 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		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
As reported gross margin	49.5%	45.3%	46.7%	47.5%
Non-GAAP gross margin (1)	46.5%	44.5%	46.0%	44.7%
As reported operating profit margin	23.2%	18.0%	22.4%	21.4%
Non-GAAP operating profit margin (2)	20.9%	19.4%	22.2%	20.6%
As reported effective tax rate	13.7%	14.1%	18.7%	19.1%
Non-GAAP effective tax rate (3)	14.8%	16.0%	18.9%	21.2%

(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).

Details of the activities impacting comparability that are presented as reconciling items to derive the non-GAAP financial measures in the tables above are as follows:

#### Mark-to-market gains on commodity derivatives

The mark-to-market losses (gains) 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 losses (gains) 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. For the three months ended June 30, 2019 and July 1, 2018, the net adjustment recognized within unallocated was a gain of \$53.6 million and a gain of \$20.8 million, respectively. For the six months ended June 30, 2019 and July 1, 2018, the net adjustment recognized within unallocated was a gain of \$25.6 million and a gain of \$117.1 million, respectively. See Note 13 to the Unaudited Consolidated Financial Statements for more information.

#### Business realignment activities

We periodically undertake restructuring and cost reduction activities as part of ongoing efforts to enhance long-term profitability. For the three months ended June 30, 2019 and July 1, 2018, we incurred \$6.4 million and \$15.3 million, respectively, of pre-tax costs related to business realignment activities. For the six months ended June 30, 2019 and July 1, 2018, we incurred \$6.9 million and \$31.2 million, respectively, of pre-tax costs related to business realignment activities. See Note 9 to the Unaudited Consolidated Financial Statements for more information.

#### Acquisition-related costs

For the three months ended June 30, 2019 and July 1, 2018, we incurred expenses totaling \$2.3 million and \$4.8 million, respectively. For the six months ended June 30, 2019 and July 1, 2018, we incurred expenses totaling \$5.5 million and \$32.7 million, respectively, related to the acquisitions of Amplify in January 2018 and Pirate Brands in October 2018. This primarily includes legal and consultant fees, as well as severance and other costs relating to the integration of the businesses. See Note 2 to the Unaudited Consolidated Financial Statements for more information.

#### Long-lived asset impairment charges

For the three and six months ended June 30, 2019, we incurred \$4.7 million of pre-tax long-lived asset 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 after the divestiture of Tyrrells in July 2018. For the three and six months ended July 1, 2018, we incurred \$27.2 million of pre-tax long-lived asset impairment charges within the Shanghai Golden Monkey ("SGM") and Tyrrells disposal groups. These charges represented the excess of the disposal groups' carrying values, including the related currency translation adjustment amounts to be realized upon completion of the sales, over the estimated fair values less costs to sell for the respective businesses. In July 2018, we sold the SGM and Tyrrells businesses. See Note 6 to the Unaudited Consolidated Financial Statements for more information.

#### 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 Lotte Shanghai Foods Co., Ltd., 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 non-controlling interest.

#### Gain on sale of licensing rights

During the second quarter of 2018, we recorded a \$2.7 million gain on the sale of licensing rights for a non-core trademark relating to a brand marketed outside of the U.S.

#### 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.

#### **Constant Currency Net Sales Growth**

We present certain percentage changes in net sales on a constant currency basis, which excludes the impact of foreign currency exchange. This measure is used internally by management in evaluating results of operations and determining incentive compensation. We believe that this measure provides useful information to investors because it provides transparency to underlying performance in our net sales by excluding the effect that foreign currency exchange rate fluctuations have on the year-to-year comparability given volatility in foreign currency exchange markets.

To present this information for historical periods, current period net sales for entities reporting in other than the U.S. dollar are translated into U.S. dollars at the average monthly exchange rates in effect during the comparable 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 comparable 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**

	<b>Percentage Change as Reported</b>	<b>Impact of Foreign Currency Exchange</b>	<b>Percentage Change on Constant Currency Basis</b>	<b>Impact of Acquisitions and Divestitures</b>	<b>Percentage Change on Organic Constant Currency Basis</b>
<b>North America segment</b>					
Canada	(3.7)%	(3.6)%	(0.1)%	— %	(0.1)%
<b>Total North America segment</b>	<b>0.5 %</b>	<b>(0.2)%</b>	<b>0.7 %</b>	<b>(0.3)%</b>	<b>1.0 %</b>
<b>International and Other segment</b>					
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 %
Regional Markets	18.0 %	— %	18.0 %	— %	18.0 %
<b>Total International and Other segment</b>	<b>3.9 %</b>	<b>(1.2)%</b>	<b>5.1 %</b>	<b>(3.2)%</b>	<b>8.3 %</b>
<b>Total Company</b>	<b>0.9 %</b>	<b>(0.3)%</b>	<b>1.2 %</b>	<b>(0.6)%</b>	<b>1.8 %</b>

**Six Months Ended June 30, 2019**

	<b>Percentage Change as Reported</b>	<b>Impact of Foreign Currency Exchange</b>	<b>Percentage Change on Constant Currency Basis</b>	<b>Impact of Acquisitions and Divestitures</b>	<b>Percentage Change on Organic Constant Currency Basis</b>
<b>North America segment</b>					
Canada	(5.2)%	(4.2)%	(1.0)%	— %	(1.0)%
<b>Total North America segment</b>	<b>1.9 %</b>	<b>(0.2)%</b>	<b>2.1 %</b>	<b>0.7 %</b>	<b>1.4 %</b>
<b>International and Other segment</b>					
Mexico	6.1 %	(0.8)%	6.9 %	— %	6.9 %
Brazil	(12.1)%	(11.3)%	(0.8)%	— %	(0.8)%
India	(3.5)%	(5.9)%	2.4 %	— %	2.4 %
China	(32.2)%	(4.3)%	(27.9)%	(32.5)%	4.6 %
Regional Markets	10.6 %	— %	10.6 %	— %	10.6 %
<b>Total International and Other segment</b>	<b>(0.8)%</b>	<b>(2.4)%</b>	<b>1.6 %</b>	<b>(4.0)%</b>	<b>5.6 %</b>
<b>Total Company</b>	<b>1.6 %</b>	<b>(0.5)%</b>	<b>2.1 %</b>	<b>0.2 %</b>	<b>1.9 %</b>

## Liquidity and Capital Resources

Historically, our primary source of liquidity has been cash generated from operations. Domestic seasonal working capital needs, which typically peak during the summer months, are generally met by utilizing cash on hand, bank borrowings or the issuance of commercial paper. Commercial paper may also be issued, from time to time, to finance ongoing business transactions, such as the repayment of long-term debt, business acquisitions and for other general corporate purposes.

At June 30, 2019, our cash and cash equivalents totaled \$366.0 million. At December 31, 2018, our cash and cash equivalents totaled \$588.0 million. Our cash and cash equivalents during the first six months of 2019 decreased \$222.0 million compared to the 2018 year-end balance as a result of the net uses of cash outlined in the following discussion.

Approximately 60% of the balance of our cash and cash equivalents at June 30, 2019 was held by subsidiaries domiciled outside of the United States. The Company recognized the one-time U.S. repatriation tax due under U.S. tax reform and, as a result, repatriation of these amounts would not be subject to additional U.S. federal income tax but would be subject to applicable withholding taxes in the relevant jurisdiction. Our intent is to reinvest funds earned outside of the United States to finance foreign operations and investments, and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations. We believe we have sufficient liquidity to satisfy our cash needs, including our cash needs in the United States.

### Cash Flow Summary

The following table is derived from our Consolidated Statement of Cash Flows:

In millions of dollars	Three Months Ended	
	June 30, 2019	July 1, 2018
Net cash provided by (used in):		
Operating activities	\$ 679.3	\$ 602.9
Investing activities	(206.4)	(1,064.3)
Financing activities	(698.7)	553.2
Effect of exchange rate changes on cash and cash equivalents	3.8	(4.6)
(Decrease) increase in cash and cash equivalents	\$ (222.0)	\$ 87.2

### Operating activities

We generated cash of \$679.3 million for operating activities in the first six months of 2019, an increase of \$76.4 million compared to \$602.9 million in the same period of 2018. This increase in net cash from operating activities was mainly driven by the following factors:

- Net income adjusted for non-cash charges to operations (including depreciation, amortization, stock-based compensation, deferred income taxes, write-down of equity investments and other charges) resulted in \$22 million of higher cash flow in 2019 relative to 2018.
- Net working capital (comprised of trade accounts receivable, inventory, accounts payable and accrued liabilities), which consumed cash of \$151 million in 2019 and \$208 million in 2018. This \$57 million fluctuation was mainly driven by:
  - \$128 million decrease in cash used by accounts payable and accrued liabilities, due to the timing of payments for trade-related and other accounts payables, as well as prior year spending necessary to settle certain accrued liabilities acquired in conjunction with the Amplify acquisition, specifically Amplify's acquisition-related costs and accelerated equity compensation.
  - Partially offset by a \$45 million decrease in cash provided by accounts receivable, primarily driven by a decline in extended customer payment terms on seasonal products, resulting in a lower investment in accounts receivable as of the 2019 quarter-end.

- Partially offset by a \$26 million increase in cash used by inventories, due to a higher year-over-year build up of inventories to satisfy seasonal core product requirements.
- Prepaid expenses and other current assets generated cash of \$18 million in 2019, compared to cash used of \$26 million in 2018. This \$44 million fluctuation was mainly driven by the timing of payments on commodity futures. We utilize commodity futures contracts to economically manage the risk of future price fluctuations associated with our purchase of raw materials.
- The increase in cash provided by operating activities was partially offset by the following net cash outflow:
  - Incomes taxes used cash of \$15 million in 2019, compared to cash generated of \$54 million in 2018. This \$69 million fluctuation was mainly due to the variance in actual tax expense for 2019 relative to the timing of quarterly estimated tax payments.

### **Investing activities**

We used cash of \$206.4 million for investing activities in the first six months of 2019, a decrease of \$857.9 million compared to \$1,064.3 million in the same period of 2018. This decrease in net cash used in investing activities was mainly driven by the following factors:

- *Capital spending.* Capital expenditures, including capitalized software, primarily to support capacity expansion, innovation and cost savings, were \$176.3 million in the first six months of 2019 compared to \$135.9 million in the same period of 2018. For full year 2019, we expect capital expenditures, including capitalized software, to approximate \$330 million to \$350 million.
- *Proceeds from sales of property, plant and equipment and other long-lived assets.* During the first six months of 2019, proceeds from the sale of property, plant and equipment and other long-lived assets activity was minimal. During the first six months of 2018, we generated \$16 million of proceeds from the sale of property, plant and equipment and other long-lived assets, the majority of which related to the sale of licensing rights for a non-core trademark relating to a brand marketed outside of the U.S. The sale resulted in a gain of \$2.7 million.
- *Business Acquisition.* We had no acquisition or divestiture activity in 2019. In January 2018, we acquired Amplify for \$915.5 million, net of cash acquired. Further details regarding our business acquisition activity are provided in Note 2 to the Unaudited Consolidated Financial Statements.
- *Investments in partnerships qualifying for tax credits.* We make investments in partnership entities that in turn make equity investments in projects eligible to receive federal historic and energy tax credits. We invested approximately \$30.3 million in the first six months of 2019, compared to \$29.0 million in the same period of 2018.

### **Financing activities**

We used cash of \$698.7 million for financing activities in the first six months of 2019, an increase of \$1,251.9 million compared to cash generated of \$553.2 million in the same period of 2018. This increase in net cash used in financing activities was mainly driven by the following factors:

- *Short-term borrowings, net.* In addition to utilizing cash on hand, we use short-term borrowings (commercial paper and bank borrowings) to fund seasonal working capital requirements and ongoing business needs. During the first six months of 2019, we had a net reduction in short-term borrowings of \$311.2 million primarily due to repayments on commercial paper, partially offset by increases in short-term foreign borrowings. During the first six months of 2018, we generated cash flow of \$491 million through the issuance of short-term commercial paper and increase in short-term foreign borrowings. We utilized the proceeds from the issuance of commercial paper to fund the Amplify acquisition and repayment of Amplify's outstanding debt owed under its existing credit agreement.
- *Long-term debt borrowings and repayments.* During the first six months of 2019, our long-term debt borrowings and repayments activity was minimal. During the first six months of 2018, we repaid \$607 million of debt assumed in connection with the Amplify acquisition, including all of the outstanding debt owed by Amplify under its existing credit agreement. Additionally, in May 2018, we issued \$350,000 of 2.90% Notes due in 2020,

\$350,000 of 3.10% Notes due in 2021 and \$500,000 of 3.375% Notes due in 2023. Proceeds from the issuance of the Notes, net of discounts and issuance costs, totaled \$1,193.8 million.

- *Tax receivable obligation.* In connection with the Amplify acquisition in 2018, the Company agreed to make a payment to the counterparty of a tax receivable agreement. During the first six months of 2018, we paid \$72.0 million of the tax receivable obligation.
- *Share repurchases.* We used cash for total share repurchases of \$254.4 million and \$199.7 million during the first six months of 2019 and 2018, respectively, pursuant to our practice of replenishing shares issued for stock options and incentive compensation, as well as shares repurchased in the open market under pre-approved share repurchase programs.
- *Dividend payments.* Total dividend payments to holders of our Common Stock and Class B Common Stock were \$295.5 million during the first six months of 2019, an increase of \$27.6 million compared to \$267.9 million in the same period of 2018.
- *Proceeds from the exercise of stock options.* We received \$161.4 million from employee exercises of stock options, net of employee taxes withheld from share-based awards, during the first six months of 2019, an increase of \$153.2 million compared to \$8.2 million in the same period of 2018.

#### **Recent Accounting Pronouncements**

Information on recently adopted and recently issued accounting standards is included in Note 1 to the Unaudited Consolidated Financial Statements.

## **Safe Harbor Statement**

We are subject to changing economic, competitive, regulatory and technological risks and uncertainties that could have a material impact on our business, financial condition or results of operations. In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we note the following factors that, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions that we have discussed directly or implied in this report. Many of the forward-looking statements contained in this report may be identified by the use of words such as “intend,” “believe,” “expect,” “anticipate,” “should,” “planned,” “projected,” “estimated,” and “potential,” among others.

The factors that could cause our actual results to differ materially from the results projected in our forward-looking statements include, but are not limited to the following:

- Issues or concerns related to the quality and safety of our products, ingredients or packaging could cause a product recall and/or result in harm to the Company’s reputation, negatively impacting our operating results;
- Increases in raw material and energy costs along with the availability of adequate supplies of raw materials could affect future financial results;
- Price increases may not be sufficient to offset cost increases and maintain profitability or may result in sales volume declines associated with pricing elasticity;
- Market demand for new and existing products could decline;
- Increased marketplace competition could hurt our business;
- Disruption to our manufacturing operations or supply chain could impair our ability to produce or deliver finished products, resulting in a negative impact on our operating results;
- Our financial results may be adversely impacted by the failure to successfully execute or integrate acquisitions, divestitures and joint ventures;
- Changes in governmental laws and regulations could increase our costs and liabilities or impact demand for our products;
- Political, economic and/or financial market conditions could negatively impact our financial results;
- Our international operations may not achieve projected growth objectives, which could adversely impact our overall business and results of operations;
- Disruptions, failures or security breaches of our information technology infrastructure could have a negative impact on our operations;
- We might not be able to hire, engage and retain the talented global workforce we need to drive our growth strategies;
- We may not fully realize the expected costs savings and/or operating efficiencies associated with our strategic initiatives or restructuring programs, which may have an adverse impact on our business;
- Complications with the design or implementation of our new enterprise resource planning system could adversely impact our business and operations; and
- Such other matters as discussed in our 2018 Annual Report on Form 10-K.

We undertake no obligation to publicly update or revise any forward-looking statements to reflect actual results, changes in expectations or events or circumstances after the date this Quarterly Report on Form 10-Q is filed.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The total notional amount of interest rate swaps outstanding at June 30, 2019 and December 31, 2018 was \$350 million. The notional amount relates to fixed-to-floating interest rate swaps which convert a comparable amount of fixed-rate debt to variable rate debt at June 30, 2019 and December 31, 2018. A hypothetical 100 basis point increase in interest rates applied to this now variable-rate debt as of June 30, 2019 would have increased interest expense by approximately \$1.8 million for the first six months of 2019 and \$3.5 million for the full year 2018.

In addition, the total amount of short-term debt, net of cash, amounted to \$521 million and \$610 million, respectively, at June 30, 2019 and December 31, 2018. A hypothetical 100 basis point increase in interest rates applied to this variable-rate short-term debt as of June 30, 2019 would have increased interest expense by approximately \$3.1 million for the first six months of 2019 and \$9.0 million for the full year 2018.

We consider our current risk related to market fluctuations in interest rates on our remaining debt portfolio, excluding fixed-rate debt converted to variable rates with fixed-to-floating instruments, to be minimal since this debt is largely long-term and fixed-rate in nature. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. A 100 basis point increase in market interest rates would decrease the fair value of our fixed-rate long-term debt at June 30, 2019 and December 31, 2018 by approximately \$151 million and \$121 million, respectively. However, since we currently have no plans to repurchase our outstanding fixed-rate instruments before their maturities, the impact of market interest rate fluctuations on our long-term debt does not affect our results of operations or financial position.

The potential decline in fair value of foreign currency forward exchange contracts resulting from a hypothetical near-term adverse change in market rates of 10% was \$18.8 million as of June 30, 2019 and \$4.5 million as of December 31, 2018, generally offset by a reduction in foreign exchange associated with our transactional activities.

Our open commodity derivative contracts had a notional value of \$734.7 million as of June 30, 2019 and \$693.5 million as of December 31, 2018. At the end of the second quarter 2019, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have increased our net unrealized losses by \$57.1 million, generally offset by a reduction in the cost of the underlying commodity purchases.

Other than as described above, market risks have not changed significantly from those described in our 2018 Annual Report on Form 10-K.

## **Item 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures as of June 30, 2019. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2019.

We rely extensively on information systems and technology to manage our business and summarize operating results. We are in the process of a multi-year implementation of a new global enterprise resource planning (“ERP”) system, which will replace our existing operating and financial systems. The ERP system is designed to accurately maintain the Company’s financial records, enhance operational functionality and provide timely information to the Company’s management team related to the operation of the business. The implementation is expected to occur in phases over the next several years. We have completed the implementation of certain processes, including our consolidated financial reporting platform in the second quarter of 2018, as well as our trade promotions and direct marketing systems in the first quarter of 2019. These transitions did not result in significant changes in our internal control over financial reporting. However, as the next phases of the updated processes are rolled out in connection with the ERP implementation, we will give appropriate consideration to whether these process changes necessitate changes in the design of and testing for effectiveness of internal controls over financial reporting.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

Information on legal proceedings is included in Note 16 to the Unaudited Consolidated Financial Statements.

### Item 1A. Risk Factors.

When evaluating an investment in our Common Stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A, “Risk Factors,” of our 2018 Annual Report on Form 10-K and the information contained in this Quarterly Report on Form 10-Q and our other reports and registration statements filed with the SEC. There have been no material changes in our risk factors since the filing of our 2018 Annual Report on Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

#### Issuer Purchases of Equity Securities

The following table shows the purchases of shares of Common Stock made by or on behalf of Hershey, or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Hershey, for each fiscal month in the three months ended June 30, 2019:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
				(in thousands of dollars)
April 1 through April 28	—	\$ —	—	\$ 410,000
April 29 through May 26	120,000	\$ 128.67	—	\$ 410,000
May 27 through June 30	300,000	\$ 134.96	—	\$ 410,000
Total	420,000	\$ 133.17	—	

(1) During the three months ended June 30, 2019, 420,000 shares of Common Stock were purchased in open market transactions in connection with our practice of buying back shares sufficient to offset those issued under incentive compensation plans.

(2) In October 2017, our Board of Directors approved a \$100 million share repurchase authorization. This program was completed in the first quarter of 2019. In July 2018, our Board of Directors approved an additional \$500 million share repurchase authorization. As of June 30, 2019, approximately \$410 million remained available for repurchases of our Common Stock under this program. The share repurchase program does not have an expiration date.

### Item 3. Defaults Upon Senior Securities.

Not applicable.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

Not applicable.

**Item 6. Exhibits.**

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">10.1</a>	<a href="#">Five Year Credit Agreement dated as of July 2, 2019, is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 2, 2019.</a>
<a href="#">31.1</a>	<a href="#">Certification of Michele G. Buck, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>
<a href="#">31.2</a>	<a href="#">Certification of Steven E. Voskuil, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>
<a href="#">32.1</a>	<a href="#">Certification of Michele G. Buck, Chief Executive Officer, and Steven E. Voskuil, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**THE HERSHEY COMPANY  
(Registrant)**

Date: July 25, 2019

/s/ Steven E. Voskuil

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Steven E. Voskuil  
Senior Vice President, Chief Financial Officer  
(Principal Financial Officer)

Date: July 25, 2019

/s/ Javier H. Idrovo

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Javier H. Idrovo  
Chief Accounting Officer  
(Principal Accounting Officer)

## CERTIFICATION

I, Michele G. Buck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Hershey Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHELE G. BUCK

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**Michele G. Buck**  
**Chief Executive Officer**  
**July 25, 2019**

## CERTIFICATION

I, Steven E. Voskuil, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Hershey Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ STEVEN E. VOSKUIL

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**Steven E. Voskuil**  
**Chief Financial Officer**  
July 25, 2019

**CERTIFICATION**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of The Hershey Company (the "Company") hereby certify, to the best of their knowledge, that the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2019

/s/ MICHELE G. BUCK

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**Michele G. Buck**  
**Chief Executive Officer**

Date: July 25, 2019

/s/ STEVEN E. VOSKUIL

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**Steven E. Voskuil**  
**Chief Financial Officer**

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.