



The Hershey Company

**First Quarter 2025 Earnings Results
Prepared Remarks**

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CORPORATE PARTICIPANTS

Anoori Naughton, *Senior Director, Investor Relations*

Michele Buck, *Chief Executive Officer and Chairman*

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

PRESENTATION

Anoori Naughton

Good morning and welcome to the pre-recorded discussion of The Hershey Company's First Quarter 2025 Earnings Results. I'm Anoori Naughton, Senior Director of Investor Relations. Joining me today are Hershey's Chairman and CEO, Michele Buck and Hershey's Senior Vice President and CFO, Steve Voskuil.

In addition to these remarks, we will host an analyst Q&A-only session at 8:30 a.m. Eastern on the morning of May 1. A replay of this webcast and our subsequent Q&A session will be available on the Investor Relations section of our website, along with their corresponding transcripts.

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

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

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

Michele Buck

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

I am pleased with the progress we are making on our key strategic initiatives for the year. Consumption across our U.S. Confection and Salty Snacks businesses came in ahead of our expectations, driven by momentum across seasons, Sweets, Dot's, and SkinnyPop. We delivered on our first quarter expectations and remain on track to deliver on our financial expectations excluding any assumptions related to tariff impacts in the second half of 2025, which I will touch on later.

Despite heightened cost pressure, our strong balance sheet allows us flexibility to invest in the business and recent strategic acquisitions, expanding our better-for-you offerings and driving long-term value creation. We recently announced our intent to acquire LesserEvil, a mindful snacking brand with a

differentiated ingredient and taste profile. These unique credentials, along with LesserEvil's strong growth and margin profile, will extend our Salty Snacking portfolio and reach incremental consumers.

Additionally, we took the opportunity to acquire the FulFil brand in North America, which we operated as a JV since 2020. FulFil is now the largest and fastest growing brand in the protein and energy bar segment in Europe. The brand performs better than most competitors in terms of overall product liking, and has tremendous upside, both in the U.S. and internationally.

I am also excited to welcome two outstanding additions to our leadership team, Stacy Taffet as Chief Growth Officer and Tiffany Menyhart as Chief Customer Officer, both of which will be instrumental in propelling our vision of becoming a Leading Snacking Powerhouse.

Now on to results.

Broader snacking came under pressure in the first quarter due to softening consumer sentiment, weaker trips across channels, and continued value-seeking behaviors. However, category growth in non-seasonal candy, mint, and gum outpaced broader snacking trends in the first 12 weeks of the year. Moreover, everyday chocolate growth of nearly 2% remains consistent with historic levels. This reflects the continued relevance of the category in consumers' daily lives and strong response to investments in innovation, media and merchandising.

As we said earlier this year, the late Easter impacted retail trends in the quarter. Hershey candy, mint and gum retail sales decreased 4.2% versus overall category declines of 2.7% in the first twelve weeks of the quarter. This resulted in a share loss of approximately 45 basis points, which was ahead of our outlook. We expect our retail sales and share performance to improve in the second quarter as the full Easter season is reported.

Our seasonal business continues to outperform behind strong execution and exciting innovation. Hershey's Valentine's consumption increased mid-single digits and gained more than 60 basis points of share. Preliminary results indicate a strong Easter season for both the category and Hershey. Hershey retail takeaway grew at least 16%, resulting in an anticipated seasonal share gain of over 120 basis points. Easter will mark the eighth consecutive period of seasonal market share gains for Hershey.

Everyday Confectionery market share trends were in line with our expectations in the quarter as strong gains in sweets and mint were offset by anticipated, timing-related declines in chocolate.

We are planning to build momentum in our everyday business into the summer with exciting innovation and programming. Reese's Peanut Butter & Jelly will be available for a limited time in two flavors, grape and strawberry.

Customer demand has been excellent for Hershey's with Caramel, a concept derived from customer insights to enhance the summer S'more occasion. Some of you may have seen new Kit Kat media featuring the Break Brothers, who handle the chaos so you can enjoy a chocolatey pause, which we can all use. You'll also see new media content for Twizzler, along with a "Chews Your Vibe" summer sweets campaign, encouraging consumers to choose a relaxing moment with a Twizzler, gear up for a thrill with Jolly Rancher Ropes, or a mix of both. Lastly, Sour Strips and Jolly Rancher Freeze Dried momentum continues with both outperforming expectations year-to-date.

These new items and activations, along with incremental media and strong in store execution by our retail team will help drive stronger velocities this summer. We are encouraged by the early consumer and customer enthusiasm and we expect momentum through the second half with the strong lineup we have planned.

Let me touch a bit on what's to come later this year. First, we are excited to announce a partnership to delight fans of Pokémon with Hershey's and Kisses products and programming featuring their favorite characters. The property has strong retailer support given its wide demographic and generational appeal, and will launch in time for Back to School. Second, as we mentioned at CAGNY, later this year we will be dropping a new Shaq-a-licious gummy shape, together with a unique activation. Third, our instant consumables commercial strategy will also build incremental velocity in the second half through elevated merchandising and product placements. And fourth, and not to forget, we are launching our biggest Reese's innovation ever this Fall. This robust pipeline gives us confidence in our plans for second half share improvement.

Turning now to Salty Snacks. Our Salty Snacks portfolio is well positioned for growth in the current environment with permissible and better-for-you brands continuing to resonate with consumers and driving overall category growth. SkinnyPop consumption increased 5.4% in the quarter and gained over 160 basis point of share in ready-to-eat popcorn. We expect the benefits from the Jennifer Aniston media campaign, new packaging and price pack architecture to build over the coming months. Dot's strong momentum continued with +20.6% increase in retail takeaway growth and a 335 basis point share gain in the pretzel category, driven by robust core velocities and flavor innovation. Our Salty multipack business increased 4.6%, behind the transition of our packaging from bags to boxes at retail, as well as distribution and innovation gains.

As we look ahead, we expect momentum to build on these initiatives and with exciting news coming later this year, including the inclusion of Pirate's Booty in our Pokémon partnership, and flavor innovation on Dot's.

Net sales trends within our International segment were in line with expectations to start the year as unfavorable currency translation offset better-than-expected results across most regions. Constant currency net sales increased mid-teens in Brazil and mid-single digits in Mexico, driven by improved category dynamics as well as solid innovation, seasons and distribution gains. These markets were offset by planned declines across all other regions as we lapped the build of inventory ahead of our ERP cutover in April 2024. Our teams have a solid calendar planned for the rest of the year and continue to expect full-year constant currency net sales growth of low-single digits.

We remain committed to investing in our brands to drive long-term growth and continue to expect full-year advertising spend to increase mid-single digits. The decline in media spending in Q1 was in line with our expectations, reflecting the timing of allocated expenses in the prior year period.

Our Advancing Agility & Automation Initiative remains on track to deliver an incremental \$125 million of cost savings this year, and we have a strong pipeline of opportunities for 2026 and beyond. These savings are enabled by investments in technology platforms that drive automation and efficiencies, as well as leveraging the power of our scale across categories to drive commercial advantage. Our transformation is also enabling growth and agility investments across innovation, R&D, insights, media and promotions that will make us even stronger in the future.

Before I turn it over to Steve, let me touch on cocoa and tariffs and the next steps we are taking to address these factors in both the short and long term.

While cocoa prices have retreated over the past few months, cocoa financial markets continue to be disconnected from fundamentals due to a lack of market liquidity, market speculation, and government policy changes. As we said last quarter, we have full visibility into our cocoa costs in 2025. Our full-year cocoa cost outlook is unchanged, though our flexible hedging strategies would allow us to participate if cocoa markets retreat materially.

We are encouraged by the recovery in the 2024/25 cocoa crop. The top three global cocoa markets are tracking to a 20% increase in supply this season. High cocoa market prices are incentivizing investment in origins around the world. Farmer prices have also increased in the Ivory Coast, which should enable more investment in fertilizer, pesticides, and other techniques to improve yields. There are reasons to believe that this year's crop marks the beginning of a multi-year growth cycle in cocoa supply. In the meantime, global end users are now responding to persistently high prices in earnest, having waited and watched for some time. The global cocoa grind, a measure of demand, declined 3.4% in Q1. This marks the eighth straight quarter of declines.

Based on what we know today, we continue to anticipate inflation next year and robust planning is underway to address persistently high cocoa prices. We are readying options to execute, including pricing, price pack architecture, demand shaping and sourcing strategies, to mitigate inflation and protect our margins over the long-term. We expect to share more information on these plans over the summer.

Turning to tariffs. As a largely domestic food producer, we are relatively less exposed to tariffs than other industries. That said, the current U.S. levy on cocoa is an exposure that we must manage on top of the cocoa market's unprecedented recent price swings. Cocoa cannot be grown in the United States and thus, we are engaging with the U.S. government to seek an exemption. Our legacy is one of American industrialism and ingenuity, and we continually invest in domestic manufacturing. Just last month we cut the ribbon on a state-of-the-art chocolate processing facility in Hershey, PA, strengthening our supply chain and creating local jobs. We are developing robust mitigation plans for other raw material and finished goods exposures with several no-regrets actions already underway. Given the fluidity of the rates and negotiations, we are providing our annual guidance with tariffs expenses we can reasonably estimate and expect to incur.

As I said, we remain committed to our financial outlook provided at the beginning of the year, absent assumptions about future incremental tariffs.

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

Steve Voskuil

Thank you, Michele, and good morning everyone.

First quarter net sales results were in line with our expectations, as better than planned organic sales in North America Salty Snacks and International segments were offset by currency headwinds.

Reported net sales declined 13.8% versus the same period last year, including a 90-basis point headwind from foreign currency translation, partially offset by a 30-basis point benefit from the Sour Strips acquisition. Net price realization was an approximate 2 point benefit. Volume declined about 15 points, reflecting the lap of planned inventory increases ahead of our ERP system implementation in the prior year period, a later Easter season in 2025, and two fewer shipping days. As mentioned last quarter, the Easter and ERP laps will reverse, and we therefore expect total Company net sales to increase more than 20% in Q2. There is no change to our full-year net sales outlook of at least 2% growth.

Our North America Confectionery and International segment net sales were both significantly impacted by the aforementioned lap of inventory increases ahead of our ERP system implementation. The North America Confectionery segment net sales decline of 15.0% was in line with expectations. The Sour Strips acquisition was a 40-basis point benefit, and foreign currency exchange was a 20-basis point headwind. Volumes declined nearly 18%, partially offset by net price realization of around 3%. International segment organic, constant currency net sales declined 7.9% in the first quarter. Performance was ahead of our

expectations in all key markets. Volume declined approximately 8%, partially offset by net price realization of around 1 percent. Foreign currency translation was an approximate 8-point headwind.

Net sales for our North America Salty Snacks segment increased 1%. The volume growth of nearly 4% reflects growth across Dot's, SkinnyPop, Pirate's Booty, and incrementality from multi-branded multi-packs. This growth more than offset a 5 to 6 point volume headwind from fewer shipping days and a planned reduction in private label production. Net price realization declined nearly 3%, in line with our expectations, reflecting retailer fees ahead of the new SkinnyPop packaging launch in early Q2.

Moving down the P&L, adjusted gross margin decreased 370 basis points in the first quarter as expected commodity inflation and negative sales mix were only partially offset by productivity and pricing. Based on our commodity hedges for the balance of the year, cost pressure from cocoa will build each quarter. We expect second quarter gross margin compression to be greater than in Q1. There is no change to our underlying full-year gross margin outlook of down 650 to 700 basis points, including the impacts of incremental tariffs in Q2.

Advertising and related consumer marketing decreased 14.2% in the first quarter, driven by the timing of expenses in the North America Confectionery and International segments in the prior year period, partially offset by increased investment in North America Salty Snacks. Adjusted operating expenses, excluding advertising and related consumer marketing spend, declined 5.5% due to lower compensation and benefits costs and reduced technology investments related to the ERP system upgrade.

As Michele mentioned, we remain on track to deliver an incremental \$125 million in savings this year as part of our AAA Initiative, to be realized across cost of goods sold, advertising and related consumer marketing spend, as well as division and corporate expenses. As we shared previously, we expect these benefits to build gradually over the year.

The adjusted tax rate for the quarter was 24.4%, an increase of 4 percentage points versus the year-ago period, driven by lower levels of renewable tax credits than in the prior year. We expect other expense of approximately \$170 million to \$180 million and a full-year tax rate of approximately 16%. The increase in economic and effective tax rates reflects challenges in fully executing our tax strategies in an evolving global business landscape.

Interest expense was \$45 million in the first quarter. In the first quarter, we successfully executed a \$2 billion bond issuance, the proceeds of which are for near-term debt refinancing, commercial paper repayment, and general corporate purposes. This transaction reduced our full-year outlook for interest expense, which is now in the range of \$185 million to \$190 million.

Adjusted earnings per share declined 32% in the quarter. We expect second quarter adjusted earnings per share to decline by less as the Easter season and ERP-related inventory impacts reverse, partially mitigating the impact from incremental commodity costs and tariff pressure. There is no change to our full-year adjusted EPS outlook of down mid-30%, before the impact of incremental tariffs in the second half of the year.

In the first quarter, capital expenditures including software were \$146 million, \$68 million lower than the prior year period as several capacity and technology projects have concluded. We continue to expect full-year capital investments of \$425 million to \$450 million.

Dividends paid to shareholders in Q1 totaled \$272 million as our strong balance sheet and confidence in future business performance allow us to maintain our dividend payment in 2025.

As Michele noted, in April we acquired FulFil North America and announced our intent to acquire LesserEvil, subject to regulatory approval. The impact to our full-year outlook from FulFil is immaterial. LesserEvil is expected to close later this year and is not included in our guidance.

The Company did not repurchase any shares in the first quarter against our December 2023 \$500 million authorization, which has \$470 million remaining. We are prioritizing capital for the announced acquisitions and therefore do not expect to repurchase shares this year.

Let me take a moment to discuss tariffs. The global business environment remains dynamic as negotiations continue. We are hopeful that our largest exposures – cocoa imports and Canadian retaliatory tariffs – will be ameliorated. At the same time, we have robust planning underway to mitigate raw material and finished good exposures if they endure. As Michele mentioned, we are pursuing an exemption request for cocoa, which cannot be mitigated through sourcing strategies. For now, we plan to continue providing our full-year outlook including tariffs that we can reasonably estimate and expect to incur. In the second quarter, we expect incremental tariff expenses of approximately \$15 million to \$20 million, based on what we know today. Absent tariff relief, this expense is expected to increase in the third quarter as we work through inventory on hand.

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

Michele Buck

Thanks, Steve. Eight years ago, when I started my tenure as CEO, I saw the potential for Hershey to become a leading snacking powerhouse. While today's business environment remains volatile, we continue to take action to advance that ambition with strategies that will solidify our leadership position and enhance shareholder returns.

I want to thank everyone again for joining us this morning and encourage you to listen to our live question-and-answer webcast which will begin at 08:30 a.m. Eastern time today, and will be available at thehersheycompany.com.

Thank you for your continued support and interest in Hershey.