

**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 July 4, 2021  
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 and Zip Code)  
**(717) 534-4200**

(Registrant's telephone number, including area code)

**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  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  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

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

Common Stock, one dollar par value—145,425,767 shares, as of July 23, 2021.

Class B Common Stock, one dollar par value—60,613,777 shares, as of July 23, 2021.

**THE HERSHEY COMPANY**  
**Quarterly Report on Form 10-Q**  
**For the Period Ended July 4, 2021**

**TABLE OF CONTENTS**

<a href="#"><u>PART I. FINANCIAL INFORMATION</u></a>	<a href="#"><u>2</u></a>
<a href="#"><u>Item 1. Financial Statements</u></a>	<a href="#"><u>2</u></a>
<a href="#"><u>Consolidated Statements of Income for the Three and Six Months Ended July 4, 2021 and June 28, 2020</u></a>	<a href="#"><u>2</u></a>
<a href="#"><u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended July 4, 2021 and June 28, 2020</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>Consolidated Balance Sheets as of July 4, 2021 and December 31, 2020</u></a>	<a href="#"><u>4</u></a>
<a href="#"><u>Consolidated Statements of Cash Flows for the Six Months Ended July 4, 2021 and June 28, 2020</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Consolidated Statement of Stockholders' Equity for the Three and Six Months Ended July 4, 2021 and June 28, 2020</u></a>	<a href="#"><u>6</u></a>
<a href="#"><u>Notes to Unaudited Consolidated Financial Statements</u></a>	<a href="#"><u>8</u></a>
<a href="#"><u>Note 1 - Summary of Significant Accounting Policies</u></a>	<a href="#"><u>8</u></a>
<a href="#"><u>Note 2 - Business Acquisition and Divestitures</u></a>	<a href="#"><u>9</u></a>
<a href="#"><u>Note 3 - Goodwill and Intangible Assets</u></a>	<a href="#"><u>10</u></a>
<a href="#"><u>Note 4 - Short and Long-Term Debt</u></a>	<a href="#"><u>10</u></a>
<a href="#"><u>Note 5 - Derivative Instruments</u></a>	<a href="#"><u>12</u></a>
<a href="#"><u>Note 6 - Fair Value Measurements</u></a>	<a href="#"><u>15</u></a>
<a href="#"><u>Note 7 - Leases</u></a>	<a href="#"><u>16</u></a>
<a href="#"><u>Note 8 - Investments in Unconsolidated Affiliates</u></a>	<a href="#"><u>19</u></a>
<a href="#"><u>Note 9 - Business Realignment Activities</u></a>	<a href="#"><u>19</u></a>
<a href="#"><u>Note 10 - Income Taxes</u></a>	<a href="#"><u>21</u></a>
<a href="#"><u>Note 11 - Pension and Other Post-Retirement Benefit Plans</u></a>	<a href="#"><u>22</u></a>
<a href="#"><u>Note 12 - Stock Compensation Plans</u></a>	<a href="#"><u>23</u></a>
<a href="#"><u>Note 13 - Segment Information</u></a>	<a href="#"><u>26</u></a>
<a href="#"><u>Note 14 - Treasury Stock Activity</u></a>	<a href="#"><u>29</u></a>
<a href="#"><u>Note 15 - Noncontrolling Interest</u></a>	<a href="#"><u>29</u></a>
<a href="#"><u>Note 16 - Contingencies</u></a>	<a href="#"><u>29</u></a>
<a href="#"><u>Note 17 - Earnings Per Share</u></a>	<a href="#"><u>30</u></a>
<a href="#"><u>Note 18 - Other (Income) Expense, Net</u></a>	<a href="#"><u>32</u></a>
<a href="#"><u>Note 19 - Supplemental Balance Sheet Information</u></a>	<a href="#"><u>33</u></a>
<a href="#"><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>34</u></a>
<a href="#"><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>47</u></a>
<a href="#"><u>Item 4. Controls and Procedures</u></a>	<a href="#"><u>48</u></a>
<a href="#"><u>PART II. OTHER INFORMATION</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Item 1. Legal Proceedings</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Item 1A. Risk Factors</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Item 3. Defaults Upon Senior Securities</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Item 4. Mine Safety Disclosures</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Item 5. Other Information</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Item 6. Exhibits</u></a>	<a href="#"><u>50</u></a>
<a href="#"><u>Signatures</u></a>	<a href="#"><u>51</u></a>



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	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
<b>Net sales</b>	\$ 1,989,422	\$ 1,707,329	\$ 4,285,370	\$ 3,744,646
Cost of sales	1,063,977	914,777	2,310,974	2,085,472
<b>Gross profit</b>	925,445	792,552	1,974,396	1,659,174
Selling, marketing and administrative expense	467,629	408,949	962,294	884,333
Long-lived asset impairment charges	—	1,600	—	9,143
Business realignment costs (benefits)	1,141	(1,370)	2,383	(475)
<b>Operating profit</b>	456,675	383,373	1,009,719	766,173
Interest expense, net	31,065	38,079	67,501	74,334
Other (income) expense, net	7,194	11,217	9,608	22,750
<b>Income before income taxes</b>	418,416	334,077	932,610	669,089
Provision for income taxes	117,186	66,035	234,509	132,264
<b>Net income including noncontrolling interest</b>	301,230	268,042	698,101	536,825
Less: Net (loss) gain attributable to noncontrolling interest	—	(859)	1,072	(3,213)
<b>Net income attributable to The Hershey Company</b>	<u>\$ 301,230</u>	<u>\$ 268,901</u>	<u>\$ 697,029</u>	<u>\$ 540,038</u>
<b>Net income per share—basic:</b>				
Common stock	\$ 1.50	\$ 1.33	\$ 3.46	\$ 2.66
Class B common stock	\$ 1.36	\$ 1.21	\$ 3.14	\$ 2.41
<b>Net income per share—diluted:</b>				
Common stock	\$ 1.45	\$ 1.29	\$ 3.35	\$ 2.58
Class B common stock	\$ 1.36	\$ 1.20	\$ 3.13	\$ 2.41
<b>Dividends paid per share:</b>				
Common stock	\$ 0.804	\$ 0.773	\$ 1.608	\$ 1.546
Class B common stock	\$ 0.731	\$ 0.702	\$ 1.462	\$ 1.404

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					
	July 4, 2021			June 28, 2020			July 4, 2021			June 28, 2020		
	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>			\$ 301,230			\$ 268,042			\$ 698,101			\$ 536,825
<b>Other comprehensive income (loss), net of tax:</b>												
Foreign currency translation adjustments:												
Foreign currency translation gains (losses) during period	\$ 12,996	\$ —	12,996	\$ 3,052	\$ —	3,052	\$ 14,194	\$ —	14,194	\$ (48,292)	\$ —	(48,292)
Reclassification to earnings due to the sale of businesses	—	—	—	—	—	—	5,210	—	5,210	—	—	—
Pension and post-retirement benefit plans:												
Net actuarial gain and service cost	18,481	(4,399)	14,082	(16,685)	3,954	(12,731)	20,705	(4,928)	15,777	(16,685)	3,954	(12,731)
Reclassification to earnings	8,936	(2,201)	6,735	8,542	(2,183)	6,359	15,789	(4,068)	11,721	13,297	(2,731)	10,566
Cash flow hedges:												
(Losses) gains on cash flow hedging derivatives	(6,344)	(446)	(6,790)	675	838	1,513	(7,979)	(159)	(8,138)	6,056	(268)	5,788
Reclassification to earnings	5,681	158	5,839	1,205	(817)	388	8,818	(382)	8,436	3,297	(1,930)	1,367
<b>Total other comprehensive income (loss), net of tax</b>	<b>\$ 39,750</b>	<b>\$ (6,888)</b>	<b>32,862</b>	<b>\$ (3,211)</b>	<b>\$ 1,792</b>	<b>(1,419)</b>	<b>\$ 56,737</b>	<b>\$ (9,537)</b>	<b>47,200</b>	<b>\$ (42,327)</b>	<b>\$ (975)</b>	<b>(43,302)</b>
<b>Total comprehensive income including noncontrolling interest</b>			<b>\$ 334,092</b>			<b>\$ 266,623</b>			<b>\$ 745,301</b>			<b>\$ 493,523</b>
Comprehensive (loss) income attributable to noncontrolling interest			(8)			(826)			6,326			(3,288)
<b>Comprehensive income attributable to The Hershey Company</b>			<b>\$ 334,100</b>			<b>\$ 267,449</b>			<b>\$ 738,975</b>			<b>\$ 496,811</b>

See Notes to Unaudited Consolidated Financial Statements.



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

	July 4, 2021 (unaudited)	December 31, 2020
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 426,201	\$ 1,143,987
Accounts receivable—trade, net	532,401	615,233
Inventories	1,060,422	964,207
Prepaid expenses and other	200,157	254,478
Total current assets	2,219,181	2,977,905
<b>Property, plant and equipment, net</b>	2,341,825	2,285,255
<b>Goodwill</b>	2,166,446	1,988,215
<b>Other intangibles</b>	1,509,435	1,295,214
<b>Other non-current assets</b>	612,614	555,887
<b>Deferred income taxes</b>	34,362	29,369
Total assets	\$ 8,883,863	\$ 9,131,845
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 615,641	\$ 580,058
Accrued liabilities	708,292	781,766
Accrued income taxes	52,035	17,051
Short-term debt	207,564	74,041
Current portion of long-term debt	3,470	438,829
Total current liabilities	1,587,002	1,891,745
<b>Long-term debt</b>	4,095,200	4,089,755
<b>Other long-term liabilities</b>	671,601	683,434
<b>Deferred income taxes</b>	256,167	229,028
Total liabilities	6,609,970	6,893,962
<b>Stockholders' equity:</b>		
The Hershey Company stockholders' equity		
Preferred stock, shares issued: none in 2021 and 2020	—	—
Common stock, shares issued: 160,939,248 at July 4, 2021 and December 31, 2020	160,939	160,939
Class B common stock, shares issued: 60,613,777 at July 4, 2021 and December 31, 2020	60,614	60,614
Additional paid-in capital	1,218,708	1,191,200
Retained earnings	2,301,805	1,928,673
Treasury—common stock shares, at cost: 15,528,828 at July 4, 2021 and 13,325,898 at December 31, 2020	(1,180,881)	(768,992)
Accumulated other comprehensive loss	(296,136)	(338,082)
Total—The Hershey Company stockholders' equity	2,265,049	2,234,352
Noncontrolling interest in subsidiary	8,844	3,531
Total stockholders' equity	2,273,893	2,237,883
Total liabilities and stockholders' equity	\$ 8,883,863	\$ 9,131,845

See Notes to Unaudited Consolidated Financial Statements.



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

	Six Months Ended	
	July 4, 2021	June 28, 2020
<b>Operating Activities</b>		
Net income including noncontrolling interest	\$ 698,101	\$ 536,825
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	153,929	142,524
Stock-based compensation expense	32,482	25,490
Deferred income taxes	5,789	3,309
Impairment of long-lived assets	—	9,143
Write-down of equity investments	7,771	18,550
Other	51,355	27,311
Changes in assets and liabilities, net of business acquisitions and divestitures:		
Accounts receivable—trade, net	88,945	11,794
Inventories	(68,968)	(194,396)
Prepaid expenses and other current assets	14,432	15,730
Accounts payable and accrued liabilities	(33,238)	(19,304)
Accrued income taxes	68,317	65,169
Contributions to pension and other benefit plans	(9,338)	(8,333)
Other assets and liabilities	8,075	(19,765)
Net cash provided by operating activities	1,017,652	614,047
<b>Investing Activities</b>		
Capital additions (including software)	(227,607)	(185,784)
Equity investments in tax credit qualifying partnerships	(57,445)	(26,392)
Business acquisitions, net of cash and cash equivalents acquired	(418,191)	—
Other investing activities	3,123	2,374
Net cash used in investing activities	(700,120)	(209,802)
<b>Financing Activities</b>		
Net increase in short-term debt	137,027	166,017
Long-term borrowings, net of debt issuance costs	—	989,876
Repayment of long-term debt and finance leases	(436,957)	(352,104)
Cash dividends paid	(324,304)	(314,279)
Repurchase of common stock	(434,346)	(211,196)
Exercise of stock options	16,889	17,544
Net cash (used in) provided by financing activities	(1,041,691)	295,858
Effect of exchange rate changes on cash and cash equivalents	(5,061)	(17,351)
(Decrease) increase in cash and cash equivalents, including cash classified as held for sale	(729,220)	682,752
Less: Decrease (increase) in cash and cash equivalents classified as held for sale	11,434	(10,683)
Net (decrease) increase in cash and cash equivalents	(717,786)	672,069
Cash and cash equivalents, beginning of period	1,143,987	493,262
Cash and cash equivalents, end of period	\$ 426,201	\$ 1,165,331
<b>Supplemental Disclosure</b>		
Interest paid	\$ 68,345	\$ 74,944
Income taxes paid	139,078	71,633

See Notes to Unaudited Consolidated Financial Statements.



**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Three Months Ended July 4, 2021 and June 28, 2020**  
(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 4, 2021</b>	—	\$ 160,939	\$ 60,614	\$ 1,195,748	\$ 2,162,464	\$ (994,765)	\$ (329,006)	\$ 8,852	\$ 2,264,846
Net income					301,230			—	301,230
Other comprehensive income (loss)							32,870	(8)	32,862
Dividends (including dividend equivalents):									
Common Stock, \$0.804 per share					(117,581)				(117,581)
Class B Common Stock, \$0.731 per share					(44,308)				(44,308)
Stock-based compensation				17,121					17,121
Exercise of stock options and incentive-based transactions				5,839		7,871			13,710
Repurchase of common stock						(193,987)			(193,987)
<b>Balance, July 4, 2021</b>	<u>\$ —</u>	<u>\$ 160,939</u>	<u>\$ 60,614</u>	<u>\$ 1,218,708</u>	<u>\$ 2,301,805</u>	<u>\$ (1,180,881)</u>	<u>\$ (296,136)</u>	<u>\$ 8,844</u>	<u>\$ 2,273,893</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, March 29, 2020</b>	—	\$ 160,939	\$ 60,614	\$ 1,153,130	\$ 1,404,453	\$ (742,164)	\$ (365,741)	\$ 3,310	\$ 1,674,541
Net income (loss)					268,901			(859)	268,042
Other comprehensive (loss) income							(1,452)	33	(1,419)
Dividends (including dividend equivalents):									
Common Stock, \$0.773 per share					(114,260)				(114,260)
Class B Common Stock, \$0.702 per share					(42,551)				(42,551)
Stock-based compensation				12,612					12,612
Exercise of stock options and incentive-based transactions				(3,864)		5,008			1,144
Repurchase of common stock						(42,020)			(42,020)
<b>Balance, June 28, 2020</b>	<u>\$ —</u>	<u>\$ 160,939</u>	<u>\$ 60,614</u>	<u>\$ 1,161,878</u>	<u>\$ 1,516,543</u>	<u>\$ (779,176)</u>	<u>\$ (367,193)</u>	<u>\$ 2,484</u>	<u>\$ 1,756,089</u>

See Notes to Unaudited Consolidated Financial Statements.



**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Six Months Ended July 4, 2021 and June 28, 2020**  
**(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, 2020</b>	—	\$ 160,939	\$ 60,614	\$ 1,191,200	\$ 1,928,673	\$ (768,992)	\$ (338,082)	\$ 3,531	\$ 2,237,883
Net income					697,029			1,072	698,101
Other comprehensive income							41,946	5,254	47,200
Dividends (including dividend equivalents):									
Common Stock, \$1.608 per share					(235,280)				(235,280)
Class B Common Stock, \$1.462 per share					(88,617)				(88,617)
Stock-based compensation				33,076					33,076
Exercise of stock options and incentive-based transactions				(5,568)		22,457			16,889
Repurchase of common stock						(434,346)			(434,346)
Divestiture of noncontrolling interest								(1,013)	(1,013)
<b>Balance, July 4, 2021</b>	<u>\$ —</u>	<u>\$ 160,939</u>	<u>\$ 60,614</u>	<u>\$ 1,218,708</u>	<u>\$ 2,301,805</u>	<u>\$ (1,180,881)</u>	<u>\$ (296,136)</u>	<u>\$ 8,844</u>	<u>\$ 2,273,893</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, 2019</b>	—	\$ 160,939	\$ 60,614	\$ 1,142,210	\$ 1,290,461	\$ (591,036)	\$ (323,966)	\$ 5,772	\$ 1,744,994
Net income (loss)					540,038			(3,213)	536,825
Other comprehensive loss							(43,227)	(75)	(43,302)
Dividends (including dividend equivalents):									
Common Stock, \$1.546 per share					(228,854)				(228,854)
Class B Common Stock, \$1.404 per share					(85,102)				(85,102)
Stock-based compensation				25,180					25,180
Exercise of stock options and incentive-based transactions				(5,512)		23,056			17,544
Repurchase of common stock						(211,196)			(211,196)
<b>Balance, June 28, 2020</b>	<u>\$ —</u>	<u>\$ 160,939</u>	<u>\$ 60,614</u>	<u>\$ 1,161,878</u>	<u>\$ 1,516,543</u>	<u>\$ (779,176)</u>	<u>\$ (367,193)</u>	<u>\$ 2,484</u>	<u>\$ 1,756,089</u>

**See Notes to Unaudited Consolidated Financial Statements.**

[Table of Contents](#)



**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 minority shareholders do not have substantive participating rights, we have significant control through contractual or economic interests in which we are the primary beneficiary or we have the power to direct the activities that most significantly impact the entity’s economic performance. We use the equity method of accounting when we have a 20% to 50% interest in other companies and exercise significant influence. Other investments that are not controlled, and over which we do not have the ability to exercise significant influence, are accounted for under the cost method. Both equity and cost method investments are included as Other non-current assets in the Consolidated Balance Sheets.

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 July 4, 2021 may not be indicative of the results that may be expected for the year ending December 31, 2021 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, 2020 (our “2020 Annual Report on Form 10-K”), which provides a more complete understanding of our accounting policies, financial position, operating results and other matters.

### **COVID-19**

On March 11, 2020, the World Health Organization designated coronavirus disease 2019 (“COVID-19”) as a global pandemic. We continue to actively monitor COVID-19 and its potential impact on our operations and financial results. Employee health and safety remains our first priority while we continue our efforts to support community food supplies. Since the onset of COVID-19, there has been minimal disruption to our supply chain network, and all our manufacturing plants are currently open. We are also working closely with our business units, contract manufacturers, distributors, contractors and other external business partners to minimize the potential impact on our business.

The ultimate impact that COVID-19 will have on our consolidated financial statements remains uncertain and ultimately will be dictated by the length and severity of the pandemic, including COVID-19 variants or potential resurgences, as well as the economic recovery and actions taken in response by local, state and national governments around the world, including the distribution of vaccinations. We will continue to evaluate the nature and extent of these potential impacts to our business and consolidated financial statements.

### **Recent Accounting Pronouncements**

#### ***Recently Adopted Accounting Pronouncements***

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU is intended to simplify various aspects related to accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for annual periods beginning after December 15, 2020 and interim periods within those annual periods, with early adoption permitted. An entity that elects early adoption must adopt all the amendments in the same period. Most amendments within this ASU are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We adopted the



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

provisions of this ASU in the fourth quarter of 2020. Adoption of the new standard did not have a material impact on our consolidated financial statements.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU is intended to provide temporary optional expedients and exceptions to the GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. Entities may apply this ASU upon issuance through December 31, 2022 on a prospective basis. We are currently evaluating the impact of the new standard 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.

**2. BUSINESS ACQUISITION AND DIVESTITURES**

**2021 Activity**

Lily's Sweets, LLC

On June 25, 2021, we completed the acquisition of Lily's Sweets, LLC ("Lily's"), previously a privately held company that sells a line of sugar-free and low-sugar confectionery foods to retailers and distributors in the United States and Canada. Lily's products include dark and milk chocolate style bars, baking chips, peanut butter cups and other confection products that complement Hershey's confectionery and confectionery-based portfolio. The initial cash consideration paid for Lily's totaled \$418,191 and the Company may be required to pay additional cash consideration if certain defined targets related to net sales and gross margin are exceeded during the period of the closing date through December 31, 2021. As of the acquisition date, the estimated fair value of the contingent consideration obligation was classified as a liability of \$5,000 and was determined using a scenario-based analysis on forecasted future results. Acquisition-related costs for the Lily's acquisition were immaterial.

The acquisition has been accounted for as a business combination and, accordingly, Lily's has been included within the North America segment from the date of acquisition. The purchase consideration, inclusive of the acquisition date fair value of the contingent consideration, was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Goodwill	\$	174,516
Other intangible assets		235,800
Other assets acquired, primarily current assets		30,383
Other liabilities assumed, primarily current liabilities		(9,620)
Deferred income taxes		(7,888)
Net assets acquired	\$	<u>423,191</u>

The purchase price allocation presented above is preliminary. We are in the process of refining the valuation of acquired assets and liabilities, including goodwill, and expect to finalize the purchase price allocation by the end of 2021.

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 majority of goodwill derived from this acquisition is expected to be deductible for tax purposes and reflects the value of leveraging our brand building expertise, supply chain capabilities and retail relationships to accelerate growth and access to the portfolio of Lily's products.



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

Other intangible assets include trademarks valued at \$151,600 and customer relationships valued at \$84,200. Trademarks were assigned an estimated useful life of 33 years and customer relationships were assigned estimated useful lives ranging from 17 to 18 years.

Lotte Shanghai Foods Co., Ltd.

In January 2021, we completed the divestiture of Lotte Shanghai Foods Co., Ltd. ("LSFC"), which was previously included within the International and Other segment results in our consolidated financial statements. Total proceeds from the divestiture and the impact on our consolidated financial statements were immaterial and were recorded in the selling, marketing and administrative ("SM&A") expense caption within the Consolidated Statements of Income.

**2020 Activity**

During the second quarter of 2020, we completed the divestitures of KRAVE Pure Foods, Inc. and the *Scharffen Berger* and *Dagoba* brands, all of which were previously included within the North America segment results in our consolidated financial statements. Total proceeds from the divestitures and the impact on our Consolidated Statements of Income, both individually and on an aggregate basis, were immaterial.

**3. GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying value of goodwill by reportable segment for the six months ended July 4, 2021 are as follows:

	North America	International and Other	Total
Balance at December 31, 2020	\$ 1,970,445	\$ 17,770	\$ 1,988,215
Acquired during the period (see <a href="#">Note 2</a> )	174,516	—	174,516
Foreign currency translation	3,876	(161)	3,715
Balance at July 4, 2021	<u>\$ 2,148,837</u>	<u>\$ 17,609</u>	<u>\$ 2,166,446</u>

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

	July 4, 2021		December 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets subject to amortization:</b>				
Trademarks	\$ 1,364,454	\$ (122,567)	\$ 1,211,086	\$ (104,939)
Customer-related	289,467	(56,495)	204,101	(49,616)
Patents	8,848	(8,848)	8,556	(8,542)
<b>Total</b>	<u>1,662,769</u>	<u>(187,910)</u>	<u>1,423,743</u>	<u>(163,097)</u>
<b>Intangible assets not subject to amortization:</b>				
Trademarks	34,576		34,568	
<b>Total other intangible assets</b>	<u>\$ 1,509,435</u>		<u>\$ 1,295,214</u>	

Total amortization expense for the three months ended July 4, 2021 and June 28, 2020 was \$11,635 and \$11,580, respectively. Total amortization expense for the six months ended July 4, 2021 and June 28, 2020 was \$23,256 and \$23,220, 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. We maintain a \$1.5 billion unsecured revolving credit facility with the option to



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

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 July 4, 2021, 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 2020 Annual Report on Form 10-K.

In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial banks. Commitment fees relating to our revolving credit facility and lines of credit are not material. Short-term debt consisted of the following:

	July 4, 2021	December 31, 2020
Short-term foreign bank borrowings against lines of credit	\$ 57,574	\$ 74,041
U.S. commercial paper	149,990	—
<b>Total short-term debt</b>	<b>\$ 207,564</b>	<b>\$ 74,041</b>
Weighted average interest rate on outstanding commercial paper	0.1 %	N/A

### Long-term Debt

Long-term debt consisted of the following:

Debt Type and Rate	Maturity Date	July 4, 2021	December 31, 2020
8.800% Debentures (1)	February 15, 2021	\$ —	\$ 84,715
3.100% Notes (2)	May 15, 2021	—	350,000
2.625% Notes	May 1, 2023	250,000	250,000
3.375% Notes	May 15, 2023	500,000	500,000
2.050% Notes	November 15, 2024	300,000	300,000
0.900% Notes	June 1, 2025	300,000	300,000
3.200% Notes	August 21, 2025	300,000	300,000
2.300% Notes	August 15, 2026	500,000	500,000
7.200% Debentures	August 15, 2027	193,639	193,639
2.450% Notes	November 15, 2029	300,000	300,000
1.700% Notes	June 1, 2030	350,000	350,000
3.375% Notes	August 15, 2046	300,000	300,000
3.125% Notes	November 15, 2049	400,000	400,000
2.650% Notes	June 1, 2050	350,000	350,000
Finance lease obligations (see <a href="#">Note 7</a> )		79,603	80,755
Net impact of interest rate swaps, debt issuance costs and unamortized debt discounts		(24,572)	(30,525)
<b>Total long-term debt</b>		<b>4,098,670</b>	<b>4,528,584</b>
Less—current portion		3,470	438,829
<b>Long-term portion</b>		<b>\$ 4,095,200</b>	<b>\$ 4,089,755</b>

(1) In February 2021, we repaid \$84,715 of 8.800% Debentures due upon their maturity.

(2) In May 2021, we repaid \$350,000 of 3.100% Notes due upon their maturity.



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

**Interest Expense**

Net interest expense consists of the following:

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Interest expense	\$ 34,768	\$ 40,520	\$ 73,531	\$ 79,776
Capitalized interest	(3,084)	(1,664)	(4,801)	(3,081)
Interest expense	31,684	38,856	68,730	76,695
Interest income	(619)	(777)	(1,229)	(2,361)
Interest expense, net	<u>\$ 31,065</u>	<u>\$ 38,079</u>	<u>\$ 67,501</u>	<u>\$ 74,334</u>

**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 transportation services. We generally hedge commodity price risks for 3- to 24-month periods. Our open commodity derivative contracts had a notional value of \$387,871 as of July 4, 2021 and \$279,843 as of December 31, 2020.

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, Mexican peso and Swiss franc. 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 \$183,136 at July 4, 2021 and \$130,131 at December 31, 2020. 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 \$1,775 at July 4, 2021 and \$2,519 at December 31, 2020. 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.



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

**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. In December 2020, our fixed-to-floating interest rate swap matured in connection with the repayment of certain long-term debt upon its maturity. Therefore, as of July 4, 2021 and December 31, 2020, we had no open interest rate swap derivative instruments in a fair value hedging relationship.

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 July 4, 2021 and December 31, 2020 was \$22,882 and \$30,194, respectively.

The following table presents the classification of derivative assets and liabilities within the Consolidated Balance Sheets as of July 4, 2021 and December 31, 2020:

	July 4, 2021		December 31, 2020	
	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
<b>Derivatives designated as cash flow hedging instruments:</b>				
Foreign exchange contracts	\$ 43	\$ 8,012	\$ 2,388	\$ 5,522
<b>Derivatives not designated as hedging instruments:</b>				
Commodities futures and options (2)	170	3,895	3,299	1,648
Deferred compensation derivatives	1,956	—	3,630	—
Foreign exchange contracts	565	—	176	93
	2,691	3,895	7,105	1,741
<b>Total</b>	\$ 2,734	\$ 11,907	\$ 9,493	\$ 7,263

- (1) Derivatives assets are classified on our Consolidated Balance Sheets within prepaid expenses and other as well as other non-current assets. Derivative liabilities are classified on our Consolidated Balance Sheets within accrued liabilities and other long-term liabilities.
- (2) As of July 4, 2021, amounts reflected on a net basis in liabilities were assets of \$51,073 and liabilities of \$54,087, 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, 2020 were assets of \$32,674 and liabilities of \$29,376. At July 4, 2021 and December 31, 2020, the remaining amount reflected in assets and liabilities related to the fair value of other non-exchange traded derivative instruments, respectively.



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

**Income Statement Impact of Derivative Instruments**

The effect of derivative instruments on the Consolidated Statements of Income for the three months ended July 4, 2021 and June 28, 2020 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 ("AOCI") into income (b)	
	2021	2020	2021	2020	2021	2020
Commodities futures and options	\$ 16,877	\$ 2,624	\$ —	\$ —	\$ —	\$ —
Foreign exchange contracts	435	(554)	(6,344)	675	(2,972)	1,138
Interest rate swap agreements	—	—	—	—	(2,709)	(2,343)
Deferred compensation derivatives	1,956	4,626	—	—	—	—
<b>Total</b>	<b>\$ 19,268</b>	<b>\$ 6,696</b>	<b>\$ (6,344)</b>	<b>\$ 675</b>	<b>\$ (5,681)</b>	<b>\$ (1,205)</b>

The effect of derivative instruments on the Consolidated Statements of Income for the six months ended July 4, 2021 and June 28, 2020 was as follows:

	Non-designated Hedges		Cash Flow Hedges			
	Gains (losses) recognized in income (a)		Gains (losses) recognized in OCI		Gains (losses) reclassified from AOCI into income (b)	
	2021	2020	2021	2020	2021	2020
Commodities futures and options	\$ 30,556	\$ (74,468)	\$ —	\$ —	\$ —	\$ —
Foreign exchange contracts	573	(3,876)	(7,979)	6,056	(3,144)	1,390
Interest rate swap agreements	—	—	—	—	(5,674)	(4,687)
Deferred compensation derivatives	3,510	(1,133)	—	—	—	—
<b>Total</b>	<b>\$ 34,639</b>	<b>\$ (79,477)</b>	<b>\$ (7,979)</b>	<b>\$ 6,056</b>	<b>\$ (8,818)</b>	<b>\$ (3,297)</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 \$19,317 as of July 4, 2021. This amount is primarily associated with interest rate swap agreements.

Fair Value Hedging Relationships

For the three and six months ended July 4, 2021, we had no interest rate swap derivative instruments in a fair value hedging relationship. For the three and six months ended June 28, 2020, we recognized a net pretax benefit to interest expense of \$608 and \$759, respectively, relating to our fixed-to-floating interest swap arrangements.



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

**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.

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 Sheets on a recurring basis as of July 4, 2021 and December 31, 2020:

	Assets (Liabilities)			Total
	Level 1	Level 2	Level 3	
<b>July 4, 2021:</b>				
Derivative Instruments:				
Assets:				
Foreign exchange contracts (1)	\$ —	\$ 608	\$ —	\$ 608
Deferred compensation derivatives (2)	—	1,956	—	1,956
Commodities futures and options (3)	170	—	—	170
Liabilities:				
Foreign exchange contracts (1)	—	8,012	—	8,012
Commodities futures and options (3)	3,895	—	—	3,895
<b>December 31, 2020:</b>				
Assets:				
Foreign exchange contracts (1)	\$ —	\$ 2,564	\$ —	\$ 2,564
Deferred compensation derivatives (2)	—	3,630	—	3,630
Commodities futures and options (3)	3,299	—	—	3,299
Liabilities:				
Foreign exchange contracts (1)	—	5,615	—	5,615
Commodities futures and options (3)	1,648	—	—	1,648

(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 deferred compensation derivatives is based on quoted prices for market interest rates and a broad market equity index.

(3) The fair value of commodities futures and options contracts is based on quoted market prices.



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

**Other Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair values as of July 4, 2021 and December 31, 2020 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:

	Fair Value		Carrying Value	
	July 4, 2021	December 31, 2020	July 4, 2021	December 31, 2020
Current portion of long-term debt	\$ 3,470	\$ 443,215	\$ 3,470	\$ 438,829
Long-term debt	4,338,773	4,479,499	4,095,200	4,089,755
<b>Total</b>	<b>\$ 4,342,243</b>	<b>\$ 4,922,714</b>	<b>\$ 4,098,670</b>	<b>\$ 4,528,584</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.

In connection with the acquisition of Lily's in the second quarter of 2021, 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, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy.

During the six months ended July 4, 2021, we recorded no impairment charges. During the six months ended June 28, 2020, we recorded the following impairment charges, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy:

	2020
Adjustment to disposal group (1)	\$ 6,200
Other asset write-down (2)	2,943
<b>Long-lived asset impairment charges</b>	<b>\$ 9,143</b>

- (1) In connection with the sale of the LSFC joint venture (disposal group previously classified as held for sale), we recorded impairment charges to adjust long-lived asset values. The fair value of the disposal group was supported by potential sales prices with third-party buyers. The sale of the LSFC joint venture was completed in January 2021.
- (2) In connection with a previous sale, the Company wrote-down certain receivables deemed uncollectible.

**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.



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

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.

The components of lease expense for the three months ended July 4, 2021 and June 28, 2020 were as follows:

Lease expense	Classification	Three Months Ended	
		July 4, 2021	June 28, 2020
Operating lease cost	Cost of sales or SM&A (1)	\$ 11,088	\$ 10,673
Finance lease cost:			
Amortization of ROU assets	Depreciation and amortization (1)	1,999	1,949
Interest on lease liabilities	Interest expense, net	1,109	1,112
Net lease cost (2)		<u>\$ 14,196</u>	<u>\$ 13,734</u>

The components of lease expense for the six months ended July 4, 2021 and June 28, 2020 were as follows:

Lease expense	Classification	Six Months Ended	
		July 4, 2021	June 28, 2020
Operating lease cost	Cost of sales or SM&A (1)	\$ 22,554	\$ 21,217
Finance lease cost:			
Amortization of ROU assets	Depreciation and amortization (1)	4,061	3,979
Interest on lease liabilities	Interest expense, net	2,221	2,234
Net lease cost (2)		<u>\$ 28,836</u>	<u>\$ 27,430</u>

(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:

	July 4, 2021	December 31, 2020
Weighted-average remaining lease term (years)		
Operating leases	12.8	12.5
Finance leases	30.3	30.1
Weighted-average discount rate		
Operating leases	3.7 %	3.8 %
Finance leases	5.9 %	5.9 %



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

Supplemental balance sheet information related to leases were as follows:

Leases	Classification	July 4, 2021	December 31, 2020
<b>Assets</b>			
Operating lease ROU assets	Other non-current assets	\$ 206,068	\$ 224,268
Finance lease ROU assets, at cost	Property, plant and equipment, gross	99,939	101,426
Accumulated amortization	Accumulated depreciation	(16,287)	(13,361)
Finance lease ROU assets, net	Property, plant and equipment, net	83,652	88,065
<b>Total leased assets</b>		<b>\$ 289,720</b>	<b>\$ 312,333</b>
<b>Liabilities</b>			
Current			
Operating	Accrued liabilities	\$ 28,559	\$ 36,578
Finance	Current portion of long-term debt	4,188	4,868
Non-current			
Operating	Other long-term liabilities	172,352	181,871
Finance	Long-term debt	75,415	75,887
<b>Total lease liabilities</b>		<b>\$ 280,514</b>	<b>\$ 299,204</b>

The maturity of our lease liabilities as of July 4, 2021 were as follows:

	Operating leases	Finance leases	Total
2021 (rest of year)	\$ 20,512	\$ 4,349	\$ 24,861
2022	28,643	7,391	36,034
2023	20,818	5,285	26,103
2024	15,748	4,709	20,457
2025	14,200	4,741	18,941
Thereafter	160,392	161,625	322,017
Total lease payments	260,313	188,100	448,413
Less: Imputed interest	59,402	108,497	167,899
<b>Total lease liabilities</b>	<b>\$ 200,911</b>	<b>\$ 79,603</b>	<b>\$ 280,514</b>

As of July 4, 2021, the Company had entered in an additional lease as a lessee, primarily for real estate. This lease has not yet commenced and will result in ROU assets and corresponding lease liabilities of approximately \$20,000. This lease is expected to commence during the second half of 2021, with a lease term of approximately 8 years.



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

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

	Six Months Ended	
	July 4, 2021	June 28, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 21,773	\$ 21,335
Operating cash flows from finance leases	2,221	2,234
Financing cash flows from finance leases	2,240	2,105
ROU assets obtained in exchange for lease liabilities:		
Operating leases	\$ 6,190	\$ 20,814
Finance leases	436	2,076

**8. INVESTMENTS IN UNCONSOLIDATED AFFILIATES**

We invest in partnerships which make equity investments in projects eligible to receive federal historic and renewable energy tax credits. The tax credits, when realized, are recognized as a reduction of tax expense under the flow-through method, at which time the corresponding equity investment is written-down to reflect the remaining value of the future benefits to be realized. The equity investment write-down is reflected within other (income) expense, net in the Consolidated Statements of Income (see [Note 18](#)).

Additionally, we acquire ownership interests in emerging snacking businesses and startup companies, which vary in method of accounting based on our percentage of ownership and ability to exercise significant influence over decisions relating to operating and financial affairs. These investments afford the Company the rights to distribute brands that the Company does not own to third-party customers primarily in North America. Net sales and expenses of our equity method investees are not consolidated into our financial statements; rather, our proportionate share of earnings or losses are recorded on a net basis within other (income) expense, net in the Consolidated Statements of Income.

Both equity and cost method investments are reported within other non-current assets in our Consolidated Balance Sheets. We regularly review our investments and adjust accordingly for capital contributions, dividends received and other-than-temporary impairments. Total investments in unconsolidated affiliates was \$81,606 and \$52,351 as of July 4, 2021 and December 31, 2020, respectively.

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

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Cost of sales	\$ 1,042	\$ —	\$ 5,037	\$ —
Selling, marketing and administrative expense	1,286	2,645	2,976	2,645
Business realignment costs (benefits)	1,141	(1,370)	2,383	(475)
Costs associated with business realignment activities	<u>\$ 3,469</u>	<u>\$ 1,275</u>	<u>\$ 10,396</u>	<u>\$ 2,170</u>



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

Costs recorded by program during the six months ended July 4, 2021 and June 28, 2020 related to these activities were as follows:

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
<b>International Optimization Program:</b>				
Severance	\$ 1,198	\$ —	\$ 2,822	\$ —
Other program costs	2,271	—	7,574	—
<b>Margin for Growth Program:</b>				
Severance	—	(1,410)	—	(653)
Other program costs	—	2,685	—	2,823
<b>Total</b>	<b>\$ 3,469</b>	<b>\$ 1,275</b>	<b>\$ 10,396</b>	<b>\$ 2,170</b>

The following table presents the liability activity for costs qualifying as exit and disposal costs for the six months ended July 4, 2021:

	<b>Total</b>
Liability balance at December 31, 2020 (1)	\$ 12,748
2021 business realignment charges (2)	4,700
Cash payments	(14,913)
Liability balance at July 4, 2021 (1)	<u>\$ 2,535</u>

(1) The liability balances reflected above are reported within accrued liabilities and other long-term liabilities.

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

2020 International Optimization Program

In the fourth quarter of 2020, we commenced a program ("International Optimization Program") to streamline resources and investments in select international markets, including the optimization of our China operating model that will improve our operational efficiency and provide for a strong, sustainable and simplified base going forward.

The International Optimization Program is expected to be completed by mid-2022, with total pre-tax costs anticipated to be \$50,000 to \$75,000. Cash costs are expected to be \$40,000 to \$65,000, primarily related to workforce reductions of approximately 350 positions outside of the United States, costs to consolidate and relocate production, and third-party costs incurred to execute these activities. The costs and related benefits of the International Optimization Program relate 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.

For the three and six months ended July 4, 2021, we recognized total costs associated with the International Optimization Program of \$3,469 and \$10,396, respectively. These charges predominantly included third-party charges in support of our initiative to transform our China operating model, as well as severance and employee benefit costs. Since inception, we have incurred pre-tax charges to execute the program totaling \$39,739.

Margin for Growth Program

In the first quarter of 2017, the Company's Board of Directors ("Board") unanimously approved several initiatives under a single program 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. This project was completed in mid-2020.

For the three and six months ended June 28, 2020, we recognized total costs associated with the Margin for Growth Program of \$1,275 and \$2,170, respectively. These charges included employee severance, largely relating to initiatives to improve the cost structure of our corporate operating model as part of optimizing our global supply chain. In addition, we incurred other program costs, which related primarily to third-party charges in support of our initiative to improve global efficiency and effectiveness.



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

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.

## **10. INCOME TAXES**

The majority of our taxable income is generated in the United States and taxed at the United States statutory rate of 21%. The effective tax rates for the six months ended July 4, 2021 and June 28, 2020 were 25.1% and 19.8%, respectively. Relative to the statutory rate, the 2021 effective tax rate was impacted by incremental tax reserves incurred as a result of an adverse ruling in connection with a non-U.S. tax litigation matter as well as state taxes, partially offset by investment tax credits and the benefit of employee share-based payments.

The Company and its subsidiaries file tax returns in the United States, including various state and local returns, and in other foreign jurisdictions. We are routinely audited by taxing authorities in our filing jurisdictions, and a number of these disputes are currently underway, including multi-year controversies at various stages of review, negotiation and litigation in Malaysia, Mexico, and the United States. The outcome of tax audits cannot be predicted with certainty, including the timing of resolution or potential settlements. If any issues addressed in our tax audits are resolved in a manner not consistent with management's expectations, we could be required to adjust our provision for income taxes in the period such resolution occurs. During the second quarter of 2021, we recorded incremental tax reserves as a result of an adverse ruling in connection with a non-U.S. tax litigation matter. Based on our current assessments, we believe adequate provision has been made for all income tax uncertainties. We reasonably expect reductions in the liability for unrecognized tax benefits of approximately \$22,387 within the next 12 months because of the expiration of statutes of limitations and settlements of tax audits.

### American Rescue Plan Act

On March 11, 2021, the American Rescue Plan Act ("ARPA") was signed into law. The ARPA strengthens and extends certain federal programs enacted through the CARES Act and other COVID-19 relief measures, and establishes new federal programs, including provisions on taxes, healthcare and unemployment benefits. The ARPA did not have a material impact on our consolidated financial statements for the six months ended July 4, 2021.

### Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The CARES Act provides a substantial stimulus and assistance package intended to address the impact of the COVID-19 pandemic, including tax relief and government loans, grants and investments. The CARES Act did not have a material impact on our consolidated financial statements for the six months ended July 4, 2021 and June 28, 2020.



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

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

**Net Periodic Benefit Cost**

The components of net periodic benefit cost for the three months ended July 4, 2021 and June 28, 2020 were as follows:

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Service cost	\$ 5,433	\$ 5,411	\$ 45	\$ 41
Interest cost	4,536	6,966	965	1,505
Expected return on plan assets	(12,193)	(13,142)	—	—
Amortization of prior service (credit) cost	(1,535)	(1,824)	—	75
Amortization of net loss (gain)	5,604	6,582	—	(10)
Settlement loss	4,932	3,653	—	—
<b>Total net periodic benefit cost</b>	<b>\$ 6,777</b>	<b>\$ 7,646</b>	<b>\$ 1,010</b>	<b>\$ 1,611</b>

We made contributions of \$325 and \$4,000 to the pension plans and other benefits plans, respectively, during the second quarter of 2021. In the second quarter of 2020, we made contributions of \$248 and \$3,976 to our pension plans and other benefit plans, respectively. The contributions in 2021 and 2020 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 July 4, 2021 and June 28, 2020 were as follows:

	Pension Benefits		Other Benefits	
	Six Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Service cost	\$ 10,922	\$ 10,843	\$ 90	\$ 80
Interest cost	8,726	13,956	1,929	3,012
Expected return on plan assets	(24,612)	(26,310)	—	—
Amortization of prior service (credit) cost	(3,071)	(3,651)	—	150
Amortization of net loss (gain)	11,420	13,164	—	(19)
Settlement loss	7,440	3,653	—	—
<b>Total net periodic benefit cost</b>	<b>\$ 10,825</b>	<b>\$ 11,655</b>	<b>\$ 2,019</b>	<b>\$ 3,223</b>

We made contributions of \$1,183 and \$8,155 to the pension plans and other benefits plans, respectively, during the first six months of 2021. In the first six months of 2020, we made contributions of \$1,005 and \$7,328 to our pension plans and other benefit plans, respectively. The contributions in 2021 and 2020 also included benefit payments from our non-qualified pension plans and post-retirement benefit plans.

The non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans is reflected within other (income) expense, net in the Consolidated Statements of Income (see [Note 18](#)).



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

During the first and second quarters of 2021, we recognized pension settlement charges in our hourly retirement plan due to lump sum withdrawals by employees retiring or leaving the Company. In addition, we recognized pension settlement charges in our salaried retirement plan during the second quarter of 2021 due to lump sum withdrawals by employees retiring or leaving the Company. The non-cash settlement charges, which represent the acceleration of a portion of the respective plan's accumulated unrecognized actuarial loss, were triggered when the cumulative lump sum distributions exceeded the plan's anticipated annual service and interest costs. In connection with the second quarter 2021 settlements, the related plan assets and liabilities were remeasured using a discount rate as of the remeasurement date that was 34 basis points higher than the rate as of December 31, 2020 and an expected rate of return on plan assets of 4.8%.

**12. STOCK COMPENSATION PLANS**

Share-based grants for compensation and incentive purposes are made pursuant to the Equity and Incentive Compensation Plan ("EICP"). The EICP provides for grants of one or more of the following stock-based compensation awards to employees, non-employee directors and certain service providers upon whom the successful conduct of our business is dependent:

- Non-qualified stock options ("stock options");
- Performance stock units ("PSUs") and performance stock;
- Stock appreciation rights;
- Restricted stock units ("RSUs") and restricted stock; and
- Other stock-based awards.

The EICP also provides for the deferral of stock-based compensation awards by participants if approved by the Compensation and Executive Organization Committee of our Board and if in accordance with an applicable deferred compensation plan of the Company. Currently, the Compensation and Executive Organization Committee has authorized the deferral of PSU and RSU awards by certain eligible employees under the Company's Deferred Compensation Plan. Our Board has authorized our non-employee directors to defer any portion of their cash retainer, committee chair fees and RSUs awarded that they elect to convert into deferred stock units under our Directors' Compensation Plan.

At the time stock options are exercised or PSUs and RSUs become payable, Common Stock is issued from our accumulated treasury shares. Dividend equivalents are credited on RSUs on the same date and at the same rate as dividends paid on our Common Stock. Dividend equivalents are charged to retained earnings and included in accrued liabilities until paid.

Awards to employees eligible for retirement prior to the award becoming fully vested are amortized to expense over the period through the date that the employee first becomes eligible to retire and is no longer required to provide service to earn the award. In addition, historical data is used to estimate forfeiture rates and record share-based compensation expense only for those awards that are expected to vest.

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	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Pre-tax compensation expense	\$ 16,826	\$ 12,915	\$ 32,482	\$ 25,490
Related income tax benefit	4,500	2,492	8,023	4,894

Compensation expenses for stock compensation plans are primarily included in selling, marketing and administrative expense. As of July 4, 2021, total stock-based compensation expense related to non-vested awards not yet recognized was \$101,018 and the weighted-average period over which this amount is expected to be recognized was approximately 2.2 years.



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

**Stock Options**

The exercise price of each stock option awarded under the EICP equals the closing price of our Common Stock on the New York Stock Exchange on the date of grant. Each stock option has a maximum term of 10 years. Grants of stock options provide for pro-rated vesting, typically over a four-year period. Expense for stock options is based on grant date fair value and recognized on a straight-line method over the vesting period, net of estimated forfeitures.

A summary of activity relating to grants of stock options for the period ended July 4, 2021 is as follows:

Stock Options	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of the period	1,839,811	\$99.72	4.8 years	
Granted	32,155	\$147.98		
Exercised	(338,047)	\$96.46		
Forfeited	(3,009)	\$102.58		
Outstanding as of July 4, 2021	<u>1,530,910</u>	\$101.44	4.6 years	\$ 111,076
Options exercisable as of July 4, 2021	<u>1,344,804</u>	\$100.00	4.3 years	\$ 99,512

The weighted-average fair value of options granted was \$24.12 and \$21.31 per share for the periods ended July 4, 2021 and June 28, 2020, 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	
	July 4, 2021	June 28, 2020
Dividend yields	2.2 %	2.1 %
Expected volatility	21.8 %	17.5 %
Risk-free interest rates	1.0 %	1.3 %
Expected term in years	6.3	6.7

The total intrinsic value of options exercised was \$21,453 and \$23,597 for the periods ended July 4, 2021 and June 28, 2020, respectively.

**Performance Stock Units and Restricted Stock Units**

Under the EICP, we grant PSUs to selected executives and other key employees. Vesting is contingent upon the achievement of certain performance objectives. We grant PSUs over 3-year performance cycles. If we meet targets for financial measures at the end of the applicable 3-year performance cycle, we award a resulting number of shares of our Common Stock to the participants. The number of shares may be increased to the maximum or reduced to the minimum threshold based on the results of these performance metrics in accordance with the terms established at the time of the award.

For PSUs granted, the target award is a combination of a market-based total shareholder return and performance-based components. For market-based condition components, market volatility and other factors are taken into consideration in determining the grant date fair value and the related compensation expense is recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided. For performance-based condition components, we estimate the probability that the performance conditions will be achieved each quarter and adjust compensation expenses accordingly. The performance scores of PSU grants during the six months ended July 4, 2021 and June 28, 2020 can range from 0% to 250% of the targeted amounts.



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

We recognize the compensation expenses associated with PSUs ratably over the 3-year term. Compensation expenses is based on the grant date fair value because the grants can only be settled in shares of our Common Stock. The grant date fair value of PSUs is determined based on the Monte Carlo simulation model for the market-based total shareholder return component and the closing market price of the Company's Common Stock on the date of grant for performance-based components.

During the six months ended July 4, 2021 and June 28, 2020, we awarded RSUs to certain executive officers and other key employees under the EICP. We also awarded RSUs to non-employee directors.

We recognize the compensation expenses associated with employee RSUs over a specified award vesting period based on the grant date fair value of our Common Stock. We recognize expense for employee RSUs based on the straight-line method. The compensation expenses associated with non-employee director RSUs is recognized ratably over the vesting period, net of estimated forfeitures.

A summary of activity relating to grants of PSUs and RSUs for the period ended July 4, 2021 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	1,053,332	\$135.11
Granted	382,841	\$153.39
Performance assumption change (1)	144,722	\$142.56
Vested	(308,664)	\$115.57
Forfeited	(35,938)	\$124.56
Outstanding as of July 4, 2021	1,236,293	\$146.11

(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	
	July 4, 2021	June 28, 2020
Units granted	382,841	326,283
Weighted-average fair value at date of grant	\$ 153.39	\$ 163.30
Monte Carlo simulation assumptions:		
Estimated values	\$ 66.44	\$ 80.08
Dividend yields	2.2 %	2.0 %
Expected volatility	26.4 %	17.3 %

The fair value of shares vested totaled \$46,352 and \$41,874 for the periods ended July 4, 2021 and June 28, 2020, respectively.

Deferred PSUs, deferred RSUs and deferred stock units representing directors' fees totaled 263,269 units as of July 4, 2021. 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 primarily 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 90% 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 Mexico, Brazil, India and Malaysia, primarily for consumers in these regions, and also distribute and sell confectionery products in export markets 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 as 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.



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

Our segment net sales and earnings were as follows:

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
<b>Net sales:</b>				
North America	\$ 1,779,193	\$ 1,583,787	\$ 3,861,065	\$ 3,428,608
International and Other	210,229	123,542	424,305	316,038
<b>Total</b>	<b>\$ 1,989,422</b>	<b>\$ 1,707,329</b>	<b>\$ 4,285,370</b>	<b>\$ 3,744,646</b>
<b>Segment income (loss):</b>				
North America	\$ 565,905	\$ 497,587	\$ 1,227,465	\$ 1,079,142
International and Other	42,183	(3,969)	76,023	12,035
<b>Total segment income</b>	<b>608,088</b>	<b>493,618</b>	<b>1,303,488</b>	<b>1,091,177</b>
Unallocated corporate expense (1)	151,329	106,883	289,042	231,450
Unallocated mark-to-market (gains) losses on commodity derivatives	(3,385)	487	(5,669)	82,241
Long-lived asset impairment charges (see <a href="#">Note 6</a> )	—	1,600	—	9,143
Costs associated with business realignment activities (see <a href="#">Note 9</a> )	3,469	1,275	10,396	2,170
<b>Operating profit</b>	<b>456,675</b>	<b>383,373</b>	<b>1,009,719</b>	<b>766,173</b>
Interest expense, net (see <a href="#">Note 4</a> )	31,065	38,079	67,501	74,334
Other (income) expense, net (see <a href="#">Note 18</a> )	7,194	11,217	9,608	22,750
<b>Income before income taxes</b>	<b>\$ 418,416</b>	<b>\$ 334,077</b>	<b>\$ 932,610</b>	<b>\$ 669,089</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, (d) acquisition-related costs, and (e) other gains or losses that are not integral to segment performance.

Activity within the unallocated mark-to-market adjustment for commodity derivatives is as follows:

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Net (gains) losses on mark-to-market valuation of commodity derivative positions recognized in income	\$ (16,877)	\$ (2,624)	\$ (30,556)	\$ 74,468
Net gains on commodity derivative positions reclassified from unallocated to segment income	13,492	3,111	24,887	7,773
<b>Net (gains) losses on mark-to-market valuation of commodity derivative positions recognized in unallocated derivative (gains) losses</b>	<b>\$ (3,385)</b>	<b>\$ 487</b>	<b>\$ (5,669)</b>	<b>\$ 82,241</b>

As of July 4, 2021, 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 \$68,207. 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 \$52,970 to segment operating results in the next twelve months.



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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2021</b>	<b>June 28, 2020</b>	<b>July 4, 2021</b>	<b>June 28, 2020</b>
North America	\$ 56,913	\$ 54,379	\$ 116,022	\$ 108,081
International and Other	6,921	7,037	13,748	14,246
Corporate	12,198	10,484	24,159	20,197
<b>Total</b>	<b>\$ 76,032</b>	<b>\$ 71,900</b>	<b>\$ 153,929</b>	<b>\$ 142,524</b>

Additional information regarding our net sales disaggregated by geographical region is as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2021</b>	<b>June 28, 2020</b>	<b>July 4, 2021</b>	<b>June 28, 2020</b>
<b>Net sales:</b>				
United States	\$ 1,681,397	\$ 1,504,266	\$ 3,664,120	\$ 3,271,542
All other countries	308,025	203,063	621,250	473,104
<b>Total</b>	<b>\$ 1,989,422</b>	<b>\$ 1,707,329</b>	<b>\$ 4,285,370</b>	<b>\$ 3,744,646</b>

The majority of our products are confectionery or confectionery-based and include chocolate and non-chocolate confectionery products, gum and mint refreshment products, spreads, snack bites and mixes, as well as pantry items such as baking ingredients, toppings and sundae syrups. Our snacks portfolio includes ready-to-eat popcorn, baked and trans fat free snacks, protein bars and other better-for-you snacks. Additional information regarding our net sales disaggregated by product line is as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2021</b>	<b>June 28, 2020</b>	<b>July 4, 2021</b>	<b>June 28, 2020</b>
<b>Net sales:</b>				
Confectionery and confectionery-based portfolio	\$ 1,837,881	\$ 1,592,181	\$ 3,993,518	\$ 3,500,415
Snacks portfolio	151,541	115,148	291,852	244,231
<b>Total</b>	<b>\$ 1,989,422</b>	<b>\$ 1,707,329</b>	<b>\$ 4,285,370</b>	<b>\$ 3,744,646</b>



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

**14. TREASURY STOCK ACTIVITY**

A summary of our treasury stock activity is as follows:

	<b>Six Months Ended July 4, 2021</b>	
	<b>Shares</b>	<b>Dollars</b>
	<b>In thousands</b>	
Shares repurchased in the open market under pre-approved share repurchase programs	871,144	\$ 150,017
Shares repurchased to replace Treasury Stock issued for stock options and incentive compensation	1,871,500	\$ 284,329
<b>Total share repurchases</b>	<b>2,742,644</b>	<b>434,346</b>
Shares issued for stock options and incentive compensation	(539,714)	(22,457)
<b>Net change</b>	<b>2,202,930</b>	<b>\$ 411,889</b>

In July 2018, our Board of Directors approved a \$500,000 share repurchase authorization to repurchase shares of our Common Stock. As of July 4, 2021, \$109,983 remained available for repurchases of our Common Stock under this program. In May 2021, our Board of Directors approved an additional \$500,000 share repurchase authorization. This program is to commence after the existing 2018 authorization is completed and is to be utilized at management's discretion. We are authorized to purchase our 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**

As discussed in [Note 2](#), in January 2021 we completed the divestiture of LSFC, a joint venture originally established in 2007 in China for the purpose of manufacturing and selling product to the joint venture partners. Prior to the sale, we owned a 50% controlling interest in LSFC.

A roll-forward showing the 2021 activity relating to the noncontrolling interest follows:

	<b>Noncontrolling Interest</b>
Balance, December 31, 2020	\$ 3,531
Net gain attributable to noncontrolling interest	1,072
Divestiture of noncontrolling interest	(1,013)
Other comprehensive income - foreign currency translation adjustments	5,254
<b>Balance, July 4, 2021</b>	<b>\$ 8,844</b>

The remaining noncontrolling interest balance as of July 4, 2021 reflects the portion of sales proceeds attributable to the joint venture partner. The distribution of the sales proceeds will commence upon the completion of certain approvals and other conditions. We expect the distribution to be completed during 2021.

**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.



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

**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.

	<b>Three Months Ended</b>			
	<b>July 4, 2021</b>		<b>June 28, 2020</b>	
	<b>Common Stock</b>	<b>Class B Common Stock</b>	<b>Common Stock</b>	<b>Class B Common Stock</b>
<b>Basic earnings per share:</b>				
Numerator:				
Allocation of distributed earnings (cash dividends paid)	\$ 117,257	\$ 44,308	\$ 113,925	\$ 42,551
Allocation of undistributed earnings	101,414	38,251	81,891	30,534
Total earnings—basic	<u>\$ 218,671</u>	<u>\$ 82,559</u>	<u>\$ 195,816</u>	<u>\$ 73,085</u>
Denominator (shares in thousands):				
Total weighted-average shares—basic	146,111	60,614	147,635	60,614
Earnings Per Share—basic	<u>\$ 1.50</u>	<u>\$ 1.36</u>	<u>\$ 1.33</u>	<u>\$ 1.21</u>
<b>Diluted earnings per share:</b>				
Numerator:				
Allocation of total earnings used in basic computation	\$ 218,671	\$ 82,559	\$ 195,816	\$ 73,085
Reallocation of total earnings as a result of conversion of Class B common stock to Common stock	82,559	—	73,085	—
Reallocation of undistributed earnings	—	(179)	—	(123)
Total earnings—diluted	<u>\$ 301,230</u>	<u>\$ 82,380</u>	<u>\$ 268,901</u>	<u>\$ 72,962</u>
Denominator (shares in thousands):				
Number of shares used in basic computation	146,111	60,614	147,635	60,614
Weighted-average effect of dilutive securities:				
Conversion of Class B common stock to Common shares outstanding	60,614	—	60,614	—
Employee stock options	622	—	521	—
Performance and restricted stock units	324	—	300	—
Total weighted-average shares—diluted	<u>207,671</u>	<u>60,614</u>	<u>209,070</u>	<u>60,614</u>
Earnings Per Share—diluted	<u>\$ 1.45</u>	<u>\$ 1.36</u>	<u>\$ 1.29</u>	<u>\$ 1.20</u>

The earnings per share calculations for the three months ended July 4, 2021 and June 28, 2020 excluded 43 and 15 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)

	Six Months Ended			
	July 4, 2021		June 28, 2020	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
<b>Basic earnings per share:</b>				
Numerator:				
Allocation of distributed earnings (cash dividends paid)	\$ 235,687	\$ 88,617	\$ 229,177	\$ 85,102
Allocation of undistributed earnings	270,866	101,859	164,541	61,218
<b>Total earnings—basic</b>	<b>\$ 506,553</b>	<b>\$ 190,476</b>	<b>\$ 393,718</b>	<b>\$ 146,320</b>
Denominator (shares in thousands):				
Total weighted-average shares—basic	146,550	60,614	147,954	60,614
<b>Earnings Per Share—basic</b>	<b>\$ 3.46</b>	<b>\$ 3.14</b>	<b>\$ 2.66</b>	<b>\$ 2.41</b>
<b>Diluted earnings per share:</b>				
Numerator:				
Allocation of total earnings used in basic computation	\$ 506,553	\$ 190,476	\$ 393,718	\$ 146,320
Reallocation of total earnings as a result of conversion of Class B common stock to Common stock	190,476	—	146,320	—
Reallocation of undistributed earnings	—	(484)	—	(309)
<b>Total earnings—diluted</b>	<b>\$ 697,029</b>	<b>\$ 189,992</b>	<b>\$ 540,038</b>	<b>\$ 146,011</b>
Denominator (shares in thousands):				
Number of shares used in basic computation	146,550	60,614	147,954	60,614
Weighted-average effect of dilutive securities:				
Conversion of Class B common stock to Common shares outstanding	60,614	—	60,614	—
Employee stock options	606	—	620	—
Performance and restricted stock units	356	—	408	—
<b>Total weighted-average shares—diluted</b>	<b>208,126</b>	<b>60,614</b>	<b>209,596</b>	<b>60,614</b>
<b>Earnings Per Share—diluted</b>	<b>\$ 3.35</b>	<b>\$ 3.13</b>	<b>\$ 2.58</b>	<b>\$ 2.41</b>

The earnings per share calculations for the six months ended July 4, 2021 and June 28, 2020 excluded 43 and 15 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	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Write-down of equity investments in partnerships qualifying for historic and renewable energy tax credits (see <a href="#">Note 8</a> )	\$ 4,880	\$ 7,447	\$ 7,771	\$ 18,550
Non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans (see <a href="#">Note 11</a> )	2,304	3,806	1,820	3,955
Other (income) expense, net	10	(36)	17	245
<b>Total</b>	<b>\$ 7,194</b>	<b>\$ 11,217</b>	<b>\$ 9,608</b>	<b>\$ 22,750</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:

	July 4, 2021	December 31, 2020
<b>Inventories:</b>		
Raw materials	\$ 412,728	\$ 388,600
Goods in process	140,868	104,841
Finished goods	677,254	645,664
Inventories at First In First Out	1,230,850	1,139,105
Adjustment to Last In First Out	(170,428)	(174,898)
Total inventories	<u>\$ 1,060,422</u>	<u>\$ 964,207</u>
<b>Prepaid expenses and other:</b>		
Prepaid expenses	\$ 64,153	\$ 95,669
Other current assets	136,004	158,809
Total prepaid expenses and other	<u>\$ 200,157</u>	<u>\$ 254,478</u>
<b>Property, plant and equipment:</b>		
Land	\$ 132,515	\$ 131,513
Buildings	1,412,232	1,387,106
Machinery and equipment	3,271,692	3,169,754
Construction in progress	278,057	276,514
Property, plant and equipment, gross	5,094,496	4,964,887
Accumulated depreciation	(2,752,671)	(2,679,632)
Property, plant and equipment, net	<u>\$ 2,341,825</u>	<u>\$ 2,285,255</u>
<b>Other non-current assets:</b>		
Capitalized software, net	\$ 215,264	\$ 187,673
Operating lease ROU assets	206,068	224,268
Investments in unconsolidated affiliates	81,606	52,351
Other non-current assets	109,676	91,595
Total other non-current assets	<u>\$ 612,614</u>	<u>\$ 555,887</u>
<b>Accrued liabilities:</b>		
Payroll, compensation and benefits	\$ 195,224	\$ 237,342
Advertising, promotion and product allowances	309,437	309,537
Operating lease liabilities	28,559	36,578
Other	175,072	198,309
Total accrued liabilities	<u>\$ 708,292</u>	<u>\$ 781,766</u>
<b>Other long-term liabilities:</b>		
Post-retirement benefits liabilities	\$ 217,776	\$ 223,507
Pension benefits liabilities	55,615	70,727
Operating lease liabilities	172,352	181,871
Other	225,858	207,329
Total other long-term liabilities	<u>\$ 671,601</u>	<u>\$ 683,434</u>
<b>Accumulated other comprehensive loss:</b>		
Foreign currency translation adjustments	\$ (84,375)	\$ (98,525)
Pension and post-retirement benefit plans, net of tax	(166,707)	(194,205)
Cash flow hedges, net of tax	(45,054)	(45,352)
Total accumulated other comprehensive loss	<u>\$ (296,136)</u>	<u>\$ (338,082)</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 2020 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](#)
- [Trends Affecting Our Business](#)
- [Consolidated Results of Operations](#)
- [Segment Results](#)
- [Liquidity and Capital Resources](#)
- [Safe Harbor Statement](#)

### 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 (“U.S.”) and a global leader in chocolate and non-chocolate confectionery. We market, sell and distribute our products under more than 90 brand names in approximately 85 countries worldwide.

We report our operations through two segments: North America and International and Other. The majority of our products are confectionery or confectionery-based and include chocolate and non-chocolate confectionery products, gum and mint refreshment products, spreads, snack bites and mixes, as well as pantry items such as baking ingredients, toppings and sundae syrups. The confectionery and confectionery-based portfolio is predominantly sold under the renowned brands of *Hershey’s*, *Reese’s* and *Kisses*, as well as *Kit Kat*®, *Jolly Rancher*, *Ice Breakers*, *Twizzlers*, *Heath*, *Payday*, *Cadbury* and a variety of other popular brands. Our snacks portfolio includes ready-to-eat popcorn, baked and trans fat free snacks, protein bars and other better-for-you snacks. The snacks portfolio is predominantly sold under the brands of *SkinnyPop*, *Pirate’s Booty*, *ONE Bar*, and *Paqui*.

#### 2021 Acquisition and Divestiture

In June 2021, we completed the acquisition of Lily’s Sweets, LLC (“Lily’s”), previously a privately held company that sells a line of sugar-free and low-sugar confectionery foods to retailers and distributors in the United States and Canada. Lily’s products include dark and milk chocolate style bars, baking chips, peanut butter cups and other confection products that complement Hershey’s confectionery and confectionery-based portfolio. Lily’s is expected to generate annualized net sales over \$100 million.

In January 2021, we completed the divestiture of Lotte Shanghai Foods Co., Ltd. (“LSFC”), which was previously included within the International and Other segment results in our consolidated financial statements. Total proceeds from the divestiture and the impact on our consolidated financial statements were immaterial.

#### 2020 Divestitures

During the second quarter of 2020, we completed the divestitures of KRAVE Pure Foods, Inc. (“Krave”) and the *Scharffen Berger* and *Dagoba* brands, all of which were previously included within the North America segment results in our consolidated financial statements. Total proceeds from the divestitures and the impact on our consolidated financial statements, both individually and on an aggregate basis, were immaterial.



## TRENDS AFFECTING OUR BUSINESS

On March 11, 2020, the World Health Organization designated coronavirus disease 2019 ("COVID-19") as a global pandemic, which has spread worldwide and impacted various markets around the world, including the U.S. Various policies and initiatives have been implemented to reduce the global transmission of COVID-19.

Local, state and national governments continue to emphasize the importance of food supply during this pandemic and asked that food manufacturers and retailers remain open to meet the needs of our communities. Employee safety is our first priority, and as a result, we put preparedness plans in place at our manufacturing facilities. Our manufacturing facilities are currently open; however, we have adjusted shift schedules, enforced social distancing, increased sanitation and adjusted time and attendance policies for worker absenteeism. Our sales teams continue to support community food supplies, while adhering to social distancing guidelines, implementing flexible hours, reducing person-to-person interaction and increasing safety measures. At the onset of the pandemic, the Company temporarily closed all Hershey's Chocolate World stores in the U.S. (3 locations), Niagara Falls (Ontario) and Singapore; however, since July 2020, all locations were re-opened on a limited capacity basis with increased safety measures and enforced social distancing.

In June 2020 we commenced a phased in approach to reopen our corporate headquarters in Hershey, Pennsylvania and other select offices with increased safety protocols. We have successfully onboarded several teams; however, occupancy levels remain low as we continue to monitor the latest COVID-19 related public health and government guidance. As a result, a majority of our office-based employees continue to work remotely where possible. We have crisis management teams in place to monitor the continually evolving situation and recommending risk mitigation actions as deemed necessary. To date, there has been minimal disruption to our supply chain network, including the supply of our ingredients, packaging or other sourced materials, though it is possible that more significant disruptions could occur if the COVID-19 pandemic continues to impact markets around the world. We are also working closely with our business units, contract manufacturers, distributors, contractors and other external business partners to minimize the potential impact on our business.

As of July 4, 2021, we believe we have sufficient liquidity to satisfy our cash needs; however, we continue to evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during the ongoing COVID-19 pandemic. We continue to monitor our discretionary spending across the organization (see [Liquidity and Capital Resources](#) included in this MD&A).

During the second quarter of 2021, many state governments began easing COVID-19 restrictions, resulting in increased travel ahead of the summer season, approval for full capacity at major sporting and entertainment events, increased occupancy limits for indoor gathering and the removal of face covering requirements (subject to certain exceptions). Additionally, increasing availability and the rollout of vaccinations continue around the world, albeit with slower than anticipated rollouts and challenges within certain countries. We experienced an increase in our net sales and income during the three and six months ended July 4, 2021, which was primarily driven by strong everyday performance on our core U.S. confection brands and solid marketplace growth in select international markets (see [Segment Results](#) included in this MD&A).

Based on the length and severity of COVID-19, including new trends in outbreaks and hotspots, the spread of COVID-19 variants, potential resurgences and the continued distribution of vaccinations, we may experience continued volatility in retail foot traffic, consumer shopping and consumption behavior. We will continue to evaluate the nature and extent of these potential impacts to our business, consolidated results of operations, segment results, liquidity and capital resources.



## CONSOLIDATED RESULTS OF OPERATIONS

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	July 4, 2021	June 28, 2020		July 4, 2021	June 28, 2020	
<b>In millions of dollars except per share amounts</b>						
Net sales	\$ 1,989.4	\$ 1,707.3	16.5 %	\$ 4,285.4	\$ 3,744.6	14.4 %
Cost of sales	1,064.0	914.8	16.3 %	2,311.0	2,085.5	10.8 %
Gross profit	925.4	792.5	16.8 %	1,974.4	1,659.1	19.0 %
<i>Gross margin</i>	46.5 %	46.4 %		46.1 %	44.3 %	
Selling, marketing & administrative ("SM&A") expenses	467.6	408.9	14.3 %	962.3	884.3	8.8 %
<i>SM&amp;A expense as a percent of net sales</i>	23.5 %	24.0 %		22.5 %	23.6 %	
Long-lived asset impairment charges	—	1.6	NM	—	9.1	NM
Business realignment costs (benefits)	1.1	(1.4)	NM	2.4	(0.5)	NM
Operating profit	456.7	383.4	19.1 %	1,009.7	766.2	31.8 %
<i>Operating profit margin</i>	23.0 %	22.5 %		23.6 %	20.5 %	
Interest expense, net	31.1	38.1	(18.4)%	67.5	74.3	(9.2)%
Other (income) expense, net	7.2	11.2	(35.9)%	9.6	22.8	(57.8)%
Provision for income taxes	117.2	66.1	77.5 %	234.5	132.3	77.3 %
<i>Effective income tax rate</i>	28.0%	19.8%		25.1%	19.8%	
Net income including noncontrolling interest	301.2	268.0	12.4 %	698.1	536.8	30.0 %
Less: Net (loss) gain attributable to noncontrolling interest	—	(0.9)	NM	1.1	(3.2)	NM
Net income attributable to The Hershey Company	\$ 301.2	\$ 268.9	12.0 %	\$ 697.0	\$ 540.0	29.1 %
Net income per share—diluted	\$ 1.45	\$ 1.29	12.4 %	\$ 3.35	\$ 2.58	29.8 %

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

NM = not meaningful

### Results of Operations - Second Quarter 2021 vs. Second Quarter 2020

#### Net Sales

Net sales increased 16.5% in the second quarter of 2021 compared to the same period of 2020, reflecting a volume increase of 14.5% due to an increase in everyday core U.S. confection brands, as well as favorable price realization of 1.0% due to higher prices on certain products and a favorable impact from foreign currency exchange rates of 1.0%.

#### Key U.S. Marketplace Metrics

For the second quarter of 2021, our total U.S. retail takeaway increased 2.8% in the expanded multi-outlet combined plus convenience store channels (IRI MULO + C-Stores), which includes candy, mint, gum, salty snacks, meat snacks and grocery items. Our U.S. candy, mint and gum ("CMG") consumer takeaway increased 2.3%, resulting in a CMG market share loss of approximately 113 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 increased 16.3% in the second quarter of 2021 compared to the same period of 2020. The increase was driven by higher sales volume, higher freight and logistics costs and additional plant costs. These drivers were partially offset by the incremental \$14.3 million of favorable mark-to-market activity on our commodity derivative instruments intended to economically hedge future years' commodity purchases. Additionally, the increase was partially offset by favorable price realization and supply chain productivity.

Gross margin increased by 10 basis points in the second quarter of 2021 compared to the same period of 2020. The increase was driven by the favorable year-over-year mark-to-market impact from commodity derivative instruments, favorable price realization and supply chain productivity. These factors were offset by higher freight and logistics costs and additional plant costs.

### **SM&A Expenses**

SM&A expenses increased \$58.7 million or 14.3% in the second quarter of 2021 driven by advertising increases and corporate expenses. Total advertising and related consumer marketing expenses increased 9.9% driven by increased investment in core brands and incremental sponsorships in North America. SM&A expenses, excluding advertising and related consumer marketing, increased approximately 16.6% in the second quarter of 2021 driven by higher compensation costs and investments in capabilities and technology.

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

We had no impairment charges during the second quarter of 2021. During the second quarter of 2020, we recorded long-lived asset impairment charges of \$1.6 million, predominantly comprised of impairment charges to adjust long-lived asset values of our LSFC disposal group which was previously classified as held for sale.

### **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. In the second quarter of 2021, we recorded business realignment costs of \$1.1 million related to the International Optimization Program, a program focused on optimizing our China operating model to improve our operational efficiency and provide for a strong, sustainable and simplified base going forward. In the second quarter of 2020, we recorded business realignment benefits of \$1.4 million related to the Margin for Growth Program, a program 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. Costs associated with business realignment activities are classified in our Consolidated Statements of Income as described in [Note 9](#) to the Unaudited Consolidated Financial Statements.

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

Operating profit increased 19.1% in the second quarter of 2021 compared to the same period of 2020 predominantly due to higher gross profit, partially offset by higher SM&A expenses, as noted above. Operating profit margin increased to 23.0% in 2021 from 22.5% in 2020 driven by these same factors.

### **Interest Expense, Net**

Net interest expense was \$7.0 million lower in the second quarter of 2021 compared to the same period of 2020. The decrease was primarily due to lower long-term debt balances in 2021 versus 2020, specifically resulting from \$785 million of long-term debt repayments with varying maturity dates during the last twelve months preceding July 4, 2021.



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

Other (income) expense, net totaled expense of \$7.2 million in the second quarter of 2021 versus net expense of \$11.2 million in the second quarter of 2020. The decrease in net expense was primarily due to lower write-downs on equity investments qualifying for historic and renewable energy tax credits in 2021 versus 2020 and lower non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans during 2021.

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

The effective income tax rate was 28.0% for the second quarter of 2021 compared with 19.8% for the second quarter of 2020. Relative to the 21% statutory rate, the 2021 effective tax rate was impacted by incremental tax reserves incurred as a result of an adverse ruling in connection with a non-U.S. tax litigation matter as well as state taxes, partially offset by investment tax credits. Relative to the 21% statutory rate, the 2020 effective tax rate benefited from investment tax credits and changes in tax reserves, partially offset by state taxes.

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

Net income increased \$32.3 million, or 12.0%, while EPS-diluted increased \$0.16, or 12.4%, in the second quarter of 2021 compared to the same period of 2020. The increase in both net income and EPS-diluted was driven primarily by higher gross profit, partially offset by higher SM&A expenses and higher income taxes, as noted above. Our 2021 EPS-diluted also benefited from lower weighted-average shares outstanding as a result of share repurchases pursuant to our Board-approved repurchase programs.

### **Results of Operations - First Six Months 2021 vs. First Six Months 2020**

#### **Net Sales**

Net sales increased 14.4% in the first six months of 2021 compared to the same period of 2020, reflecting a volume increase of 12.6% due to an increase in everyday core U.S. confection brands, as well as favorable price realization of 1.5% due to higher prices on certain products and a favorable impact from foreign currency exchange rates of 0.4%. This was partially offset by a 0.1% decrease from net acquisitions and divestitures (predominantly driven by the 2020 divestitures of Krave and the *Scharffen Berger* and *Dagoba* brands).

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

Cost of sales increased 10.8% in the first six months of 2021 compared to the same period of 2020. The increase was driven by higher sales volume, higher freight and logistics costs and additional plant costs. These drivers were partially offset by the incremental \$105.0 million of favorable mark-to-market activity on our commodity derivative instruments intended to economically hedge future years' commodity purchases; however, were significantly impacted by financial market volatility during March 2020 amid COVID-19 fears. Additionally, the increase was partially offset by favorable price realization and supply chain productivity.

Gross margin increased by 180 basis points in the first six months of 2021 compared to the same period of 2020. The increase was driven by the favorable year-over-year mark-to-market impact from commodity derivative instruments, favorable price realization and supply chain productivity. These factors were offset by higher freight and logistics costs and additional plant costs.

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

SM&A expenses increased \$78.0 million or 8.8% in the first six months of 2021. Total advertising and related consumer marketing expenses increased 5.9% driven by increased investment in core brands and incremental sponsorships in North America. SM&A expenses, excluding advertising and related consumer marketing, increased approximately 10.4% in the first six months of 2021 driven by higher compensation costs and investments in capabilities and technology.



## Long-Lived Asset Impairment Charges

We had no impairment charges during the first six months of 2021. During the first six months of 2020, we recorded long-lived asset impairment charges of \$9.1 million, predominantly comprised of impairment charges to adjust long-lived asset values of our LSFC disposal group which was previously classified as held for sale. Additionally, in connection with a previous sale, the Company wrote-down certain receivables deemed uncollectible.

## Business Realignment Activities

During the first six months of 2021, we recorded business realignment costs of \$2.4 million related to the International Optimization Program. During the first six months of 2020, we recorded business realignment benefits of \$0.5 million related to the Margin for Growth Program. Costs associated with business realignment activities are classified in our Consolidated Statements of Income as described in [Note 9](#) to the Unaudited Consolidated Financial Statements.

## Operating Profit and Operating Profit Margin

Operating profit increased 31.8% in the first six months of 2021 compared to the same period of 2020 predominantly due to higher gross profit and lower impairment charges, partially offset by higher SM&A expenses, as noted above. Operating profit margin increased to 23.6% in 2021 from 20.5% in 2020 driven by these same factors.

## Interest Expense, Net

Net interest expense was \$6.8 million lower in the first six months of 2021 compared to the same period of 2020. The decrease was primarily due to lower long-term debt balances in 2021 versus 2020, specifically resulting from \$785 million of long-term debt repayments with varying maturity dates during the last twelve months preceding July 4, 2021.

## Other (Income) Expense, Net

Other (income) expense, net totaled expense of \$9.6 million in the first six months of 2021 versus expense of \$22.8 million in the first six months of 2020. The decrease in net expense was primarily due to lower write-downs on equity investments qualifying for historic and renewable energy tax credits in 2021 versus 2020 and lower non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans during 2021.

## Income Taxes and Effective Tax Rate

Our effective income tax rate was 25.1% for the first six months of 2021 compared with 19.8% for the first six months of 2020. Relative to the 21% statutory rate, the 2021 effective tax rate was impacted by incremental tax reserves incurred as a result of an adverse ruling in connection with a non-U.S. tax litigation matter as well as state taxes, partially offset by investment tax credits and the benefit of employee share-based payments. Relative to the 21% statutory rate, the 2020 effective tax rate was favorably impacted by investment tax credits and the benefit of employee share-based payments, partially offset by state taxes.

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

Net income increased \$157.0 million, or 29.1%, while EPS-diluted increased \$0.77, or 29.8%, in the first six months of 2021 compared to the same period of 2020. The increase in both net income and EPS-diluted was driven primarily by higher gross profit and lower impairment charges, partially offset by higher SM&A expenses and higher income taxes. Our 2021 EPS-diluted also benefited from lower weighted-average shares outstanding as a result of share repurchases pursuant to our Board-approved repurchase programs.



## 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.

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

In millions of dollars	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
<b>Net Sales:</b>				
North America	\$ 1,779.2	\$ 1,583.8	\$ 3,861.1	\$ 3,428.6
International and Other	210.2	123.5	424.3	316.0
<b>Total</b>	<b>\$ 1,989.4</b>	<b>\$ 1,707.3</b>	<b>\$ 4,285.4</b>	<b>\$ 3,744.6</b>
<b>Segment Income (Loss):</b>				
North America	\$ 565.9	\$ 497.6	\$ 1,227.5	\$ 1,079.1
International and Other	42.2	(4.0)	76.0	12.0
<b>Total segment income</b>	<b>608.1</b>	<b>493.6</b>	<b>1,303.5</b>	<b>1,091.1</b>
Unallocated corporate expense (1)	151.3	106.9	289.1	231.4
Unallocated mark-to-market (gains) losses on commodity derivatives (2)	(3.4)	0.5	(5.7)	82.2
Long-lived asset impairment charges	—	1.6	—	9.1
Costs associated with business realignment activities	3.5	1.3	10.4	2.2
<b>Operating profit</b>	<b>456.7</b>	<b>383.3</b>	<b>1,009.7</b>	<b>766.2</b>
Interest expense, net	31.1	38.1	67.5	74.3
Other (income) expense, net	7.2	11.2	9.6	22.8
<b>Income before income taxes</b>	<b>\$ 418.4</b>	<b>\$ 334.0</b>	<b>\$ 932.6</b>	<b>\$ 669.1</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, (d) acquisition-related costs and (e) 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 results, which accounted for 89.4% and 92.8% of our net sales for the three months ended July 4, 2021 and June 28, 2020, respectively, were as follows:

	Three Months Ended			Six Months Ended		
	July 4, 2021	June 28, 2020	Percent Change	July 4, 2021	June 28, 2020	Percent Change
<b>In millions of dollars</b>						
Net sales	\$ 1,779.2	\$ 1,583.8	12.3 %	\$ 3,861.1	\$ 3,428.6	12.6 %
Segment income	565.9	497.6	13.7 %	1,227.5	1,079.1	13.8 %
Segment margin	31.8 %	31.4 %		31.8 %	31.5 %	

### **Results of Operations - Second Quarter 2021 vs. Second Quarter 2020**

Net sales of our North America segment increased \$195.4 million or 12.3% in the second quarter of 2021 compared to the same period of 2020, reflecting a volume increase of 11.8% due to an increase in everyday core U.S. confection brands and a favorable impact from foreign currency exchange rates of 0.7%. This was partially offset by unfavorable price realization of 0.1% and a 0.1% decrease from net acquisitions and divestitures (predominantly driven by the 2020 divestitures of Krave and the *Scharffen Berger* and *Dagoba* brands).

Our North America segment income increased \$68.3 million or 13.7% in the second quarter of 2021 compared to the same period of 2020, primarily due to volume increases, partially offset by higher supply chain-related costs, higher freight and logistics costs, higher advertising expense and unfavorable price realization.

### **Results of Operations - First Six Months 2021 vs. First Six Months 2020**

Net sales of our North America segment increased \$432.5 million or 12.6% in the first six months of 2021 compared to the same period of 2020, reflecting a volume increase of 11.3% due to an increase in everyday core U.S. confection brands, favorable price realization of 0.9% attributed to higher prices on certain products and a favorable impact from foreign currency exchange rates of 0.5%. This was partially offset by a 0.1% decrease from net acquisitions and divestitures (predominantly driven by the 2020 divestitures of Krave and the *Scharffen Berger* and *Dagoba* brands).

Our North America segment income increased \$148.4 million or 13.8% in the first six months of 2021 compared to the same period of 2020, primarily due to volume increases and favorable price realization, partially offset by higher supply chain-related costs, higher freight and logistics costs and higher advertising expense.



## 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 India 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 results, which accounted for 10.6% and 7.2% of our net sales for the three months ended July 4, 2021 and June 28, 2020, respectively, were as follows:

In millions of dollars	Three Months Ended			Six Months Ended		
	July 4, 2021	June 28, 2020	Percent Change	July 4, 2021	June 28, 2020	Percent Change
Net sales	\$ 210.2	\$ 123.5	70.2 %	\$ 424.3	\$ 316.0	34.3 %
Segment income	42.2	(4.0)	NM	76.0	12.0	533.3 %
Segment margin	20.1 %	(3.2)%		17.9 %	3.8 %	

NM = not meaningful

### Results of Operations - Second Quarter 2021 vs. Second Quarter 2020

Net sales of our International and Other segment increased \$86.7 million or 70.2% in the second quarter of 2021 compared to the same period of 2020, reflecting a volume increase of 49.5% and favorable price realization of 15.0%. The volume increase was primarily attributed to solid marketplace growth in Mexico, Brazil, India and AEMEA Markets, where net sales increased by 137.7%, 68.7%, 57.6% and 53.1%, respectively. These increases also benefited from a favorable impact from foreign currency exchange rates of 5.7%.

Our International and Other segment also includes licensing, owned retail and world travel retail, where net sales increased approximately 91.0% during the second quarter of 2021 compared to the same period of 2020. This increase is due to the Company's temporary closure of all Hershey's Chocolate World stores at the onset of the pandemic and includes the United States (3 locations), Niagara Falls (Ontario) and Singapore. In July 2020, all locations were re-opened on a limited capacity basis with increased safety measures.

Our International and Other segment generated income of \$42.2 million in the second quarter of 2021 compared to \$4.0 million in the second quarter of 2020 with the improvement primarily resulting from execution of our International Optimization Program in China, as we streamline and optimize our China operating model, as well as volume increases and favorable price realization.

### Results of Operations - First Six Months 2021 vs. First Six Months 2020

Net sales of our International and Other segment increased \$108.3 million or 34.3% in the first six months of 2021 compared to the same period of 2020, reflecting a volume increase of 26.7% and favorable price realization of 7.6%. The volume increase was primarily attributed to solid marketplace growth in Mexico, Brazil, India and AEMEA Markets, where net sales increased by 40.1%, 34.7%, 53.2% and 32.0%, respectively.

Our International and Other segment also includes licensing, owned retail and world travel retail, where net sales increased approximately 39.3% during the first six months of 2021 compared to the same period of 2020. This increase is due to the Company's temporary closure of all Hershey's Chocolate World stores at the onset of the pandemic and includes the United States (3 locations), Niagara Falls (Ontario) and Singapore. In July 2020, all locations were re-opened on a limited capacity basis with increased safety measures.

Our International and Other segment generated income of \$76.0 million in the first six months of 2021 compared to \$12.0 million in the first six months of 2020 with the improvement primarily resulting from execution of our International Optimization Program in China, as we streamline and optimize our China operating model, as well as volume increases and favorable price realization.



## 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 2021, unallocated corporate expense totaled \$151.3 million, as compared to \$106.9 million in the second quarter of 2020. The increase is primarily driven by higher group insurance costs from COVID-19-related delays in preventive care, incremental investments in capabilities and technology and higher incentive compensation.

In the first six months of 2021, unallocated corporate expense totaled \$289.1 million, as compared to \$231.4 million in the first six months of 2020. The increase is primarily driven by incremental investments in capabilities and technology and higher incentive compensation.

## 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 July 4, 2021, our cash and cash equivalents totaled \$426.2 million, a decrease of \$717.8 million compared to the 2020 year-end balance. We believe we have sufficient liquidity to satisfy our cash needs; however, we continue to evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during the ongoing COVID-19 pandemic. Additional detail regarding the net uses of cash are outlined in the following discussion.

Approximately 85% of the balance of our cash and cash equivalents at July 4, 2021 was held by subsidiaries domiciled outside of the United States. During the first six months of 2021, previously undistributed earnings of certain international subsidiaries were no longer considered indefinitely reinvested; however, the Company had previously recognized a one-time U.S. repatriation tax due under U.S. tax reform, and as a result, only an immaterial amount of withholding tax was recognized. For the remainder of the Company's cash held by international subsidiaries, we intend to continue to reinvest the undistributed earnings indefinitely. 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 Statements of Cash Flows:

In millions of dollars	Six Months Ended	
	July 4, 2021	June 28, 2020
Net cash provided by (used in):		
Operating activities	\$ 1,017.7	\$ 614.0
Investing activities	(700.1)	(209.8)
Financing activities	(1,041.7)	295.9
Effect of exchange rate changes on cash and cash equivalents	(5.1)	(17.3)
Less: Cash classified as assets held for sale	11.4	(10.7)
(Decrease) increase in cash and cash equivalents	\$ (717.8)	\$ 672.1



### **Operating activities**

We generated cash of \$1.0 billion from operating activities in the first six months of 2021, an increase of \$403.7 million compared to \$614.0 million in the same period of 2020. This increase in net cash provided by 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, long-lived asset charges, a write-down of equity investments and other charges) resulted in \$186.3 million of higher cash flow in 2021 relative to 2020.
- Net working capital (comprised of trade accounts receivable, inventory, accounts payable and accrued liabilities) consumed cash of \$13.3 million in 2021, compared to \$201.9 million in 2020. This \$188.6 million fluctuation was mainly driven by higher cash receipts from customers resulting in a slightly lower investment in accounts receivable at the end of the second quarter of 2021 compared to the same period of 2020, as well as strong demand of U.S. inventories, specifically our everyday core U.S. confection brands.
- Accrued income taxes generated consistent levels of cash in 2021 and 2020; however, we paid cash of \$139.1 million for income taxes during 2021 compared to \$71.6 million in the same period of 2020. This \$67.5 million increase in cash payments was primarily due to the 2020 deferral of quarterly estimated tax payments as a result of the CARES Act.

### **Investing activities**

We used cash of \$700.1 million for investing activities in the first six months of 2021, an increase of \$490.3 million compared to \$209.8 million in the same period of 2020. This increase 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 \$227.6 million in the first six months of 2021 compared to \$185.8 million in the same period of 2020. For full year 2021, we expect capital expenditures, including capitalized software, to approximate \$550 million. Our 2021 capital expenditures are largely driven by the continuation of our ERP system implementation, as well as our supply chain capacity projects.
- *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 renewable energy tax credits. We invested approximately \$57.4 million in the first six months of 2021, compared to \$26.4 million in the same period of 2020.
- *Business Acquisition.* In June 2021, we acquired Lily's for an initial cash purchase price of \$418.2 million. Further details regarding our business acquisition activity is provided in [Note 2](#) to the Unaudited Consolidated Financial Statements.

### **Financing activities**

We used cash of \$1.0 billion for financing activities in the first six months of 2021, compared to cash generated of \$295.9 million in the same period of 2020. This fluctuation of \$1.3 billion for 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 2021, we generated cash flow of \$137.0 million predominantly through the issuance of short-term commercial paper, partially offset by a reduction in short-term foreign borrowings. During the first six months of 2020, we generated cash flow of \$166.0 million predominantly through the issuance of short-term commercial paper, as well as an increase in short-term foreign bank borrowings.



- *Long-term debt borrowings and repayments.* During the first six months of 2021, we repaid \$84.7 million of 8.800% Debentures due upon their maturity and \$350.0 million of 3.100% Notes due upon their maturity. During the first six months of 2020, we issued \$300 million of 0.900% Notes due in 2025, \$350 million of 1.700% Notes due in 2030 and \$350 million of 2.650% Notes due in 2050 (the "2020 Notes"). Proceeds from the issuance of the 2020 Notes, net of discounts and issuance costs, totaled \$989.9 million. Additionally, in May 2020, we repaid \$350 million of 2.900% Notes due upon their maturity.
- *Dividend payments.* Total dividend payments to holders of our Common Stock and Class B Common Stock were \$324.3 million during the first six months of 2021, an increase of \$10.0 million compared to \$314.3 million in the same period of 2020. Details regarding our 2021 cash dividends paid to stockholders are as follows:

In millions of dollars except per share amounts	Quarter Ended	
	April 4, 2021	July 4, 2021
Dividends paid per share – Common stock	\$ 0.804	0.804
Dividends paid per share – Class B common stock	\$ 0.731	0.731
Total cash dividends paid	\$ 162.7	161.6
Declaration date	February 2, 2021	April 27, 2021
Record date	February 19, 2021	May 21, 2021
Payment date	March 15, 2021	June 15, 2021

- *Share repurchases.* We used cash for total share repurchases of \$434.3 million and \$211.2 million during the first six months of 2021 and 2020, respectively, pursuant to our practice of replenishing treasury shares available for issuance for stock options and incentive compensation, as well as our share repurchases in the open market under pre-approved share repurchase programs. In July 2018, our Board of Directors approved a \$500 million share repurchase authorization. As of July 4, 2021, approximately \$110 million remained available for repurchases of our Common Stock under this program. The share repurchase program does not have an expiration date. In May 2021, our Board of Directors approved an additional \$500 million share repurchase authorization. This program is to commence after the existing 2018 authorization is completed and is to be utilized at management's discretion. For the remainder of 2021, we expect share repurchases to return to a more traditional buyback strategy.
- *Proceeds from the exercise of stock options, including tax benefits.* We received \$16.9 million from employee exercises of stock options, net of employee taxes withheld from share-based awards, during the first six months of 2021, a minimal decrease compared to \$17.5 million in the same period of 2020.

#### Recent Accounting Pronouncements

Information on recently adopted and 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 Prospectus. Many of these forward-looking statements can be identified by the use of words such as “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “forecast,” “future,” “intend,” “plan,” “potential,” “predict,” “project,” “strategy,” “target” and similar terms, and future or conditional tense verbs like “could,” “may,” “might,” “should,” “will” and “would,” 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:

- Our business and financial results may be negatively impacted by the failure to successfully manage a disruption in consumer and trade patterns, as well as operational challenges associated with the actual or perceived effects of a disease outbreak, including epidemics, pandemics or similar widespread public health concerns, such as, the COVID-19 pandemic;
- Our Company’s reputation or brand image might be impacted as a result of issues or concerns relating to the quality and safety of our products, ingredients or packaging, human and workplace rights, and other environmental, social or governance matters, which in turn could result in litigation or otherwise negatively impact our operating results;
- 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;
- We might not be able to hire, engage and retain the talented global workforce we need to drive our growth strategies;
- 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;
- Our financial results may be adversely impacted by the failure to successfully execute or integrate acquisitions, divestitures and joint ventures;
- Our international operations may not achieve projected growth objectives, which could adversely impact our overall business and results of operations;
- We may not fully realize the expected cost savings and/or operating efficiencies associated with our strategic initiatives or restructuring programs, which may have an adverse impact on our business;
- 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;



- Disruptions, failures or security breaches of our information technology infrastructure could have a negative impact on our operations;
- 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 2020 Annual Report on Form 10-K, our Quarterly Report on Form 10-Q for the quarterly period ended April 4, 2021, and this Quarterly Report on Form 10-Q, including Part II, Item 1A, "Risk Factors."

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**

In December 2020, our fixed-to-floating interest rate swap matured in connection with the repayment of certain long-term debt upon its maturity. Therefore, as of July 4, 2021 and December 31, 2020, we had no interest rate swap derivative instruments in a fair value hedging relationship. A hypothetical 100 basis point increase in interest rates applied to this variable-rate debt through its December 2020 maturity would have increased interest expense by approximately \$3.2 million for the year 2020. There is no hypothetical impact for 2021.

In addition, the total amount of short-term debt, net of cash, amounted to net cash positions of 218.6 million and \$1.1 billion, respectively, at July 4, 2021 and December 31, 2020. A hypothetical 100 basis point increase in interest rates applied to this variable-rate short-term debt as of July 4, 2021 would have changed interest expense by approximately \$3.2 million for the first six months of 2021 and \$8.6 million for the full year 2020.

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 July 4, 2021 and December 31, 2020 by approximately \$322 million and \$357 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 \$22.9 million as of July 4, 2021 and \$25.6 million as of December 31, 2020, generally offset by a reduction in foreign exchange associated with our transactional activities.

Our open commodity derivative contracts had a notional value of \$387.9 million as of July 4, 2021 and \$279.8 million as of December 31, 2020. At the end of the first quarter 2021, 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 \$41.6 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 2020 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 July 4, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 4, 2021.

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. 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 July 4, 2021 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 2020 Annual Report on Form 10-K, Part II, Item 1A, "Risk Factors," of our Quarterly Report on Form 10-Q for the quarterly period ended April 4, 2021 (the "Q1 2021 Quarterly Report"), and the information contained in this Quarterly Report on Form 10-Q and our other reports and registration statements filed with the SEC.

### 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 July 4, 2021:

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 5 through May 2	—	\$ —	—	\$ 260,000
May 3 through May 30	1,134,144	\$ 171.04	871,144	\$ 109,983
May 31 through July 4	—	\$ —	—	\$ 109,983
Total	<u>1,134,144</u>	\$ 171.04	<u>871,144</u>	

(1) During the three months ended July 4, 2021, 1,134,144 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 July 2018, our Board of Directors approved a \$500 million share repurchase authorization. As of July 4, 2021, approximately \$110 million remained available for repurchases of our Common Stock under this program. The share repurchase program does not have an expiration date. In May 2021, our Board of Directors approved an additional \$500 million share repurchase authorization (excluded from the table above). This program is to commence after the existing 2018 authorization is completed and is to be utilized at management's discretion.

### 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="#">3.1</a>	<a href="#">The Company's Restated Certificate of Incorporation, as amended, is incorporated by reference from Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2005.</a>
<a href="#">3.2</a>	<a href="#">The Company's By-laws, as amended and restated as of February 21, 2017, are incorporated by reference from Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.</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
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 4, 2021, formatted in Inline XBRL and contained in Exhibit 101.
*	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 29, 2021

*/s/ Steven E. Voskuil*

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

Date: July 29, 2021

*/s/ Jennifer L. McCalman*

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Jennifer L. McCalman  
Vice President, 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**  
**(Principal Executive Officer)**  
July 29, 2021



## 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**  
**(Principal Financial Officer)**  
**July 29, 2021**



## 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 July 4, 2021 (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 29, 2021

/s/ MICHELE G. BUCK

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**Michele G. Buck**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

Date: July 29, 2021

/s/ STEVEN E. VOSKUIL

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

