

The Hershey Company

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12:45 p.m. EDT**

Andrew Lazar: Welcome back, everybody. And for our next session, really thrilled to welcome back The Hershey Company. With us today are CEO, Kirk Tanner, and newly minted, Hershey's CFO, Dave Hulays. Congratulations, Dave.

Dave Hulays: Thank you.

Andrew Lazar: And again, thanks to both of you for coming.

Kirk Tanner: Thanks for having us.

Andrew Lazar: Maybe to kick it off, Kirk, a lot of topics we want to cover today, including second half sales cadence, pricing elasticities, cocoa, market share, salty snacks execution and sort of the '27 framework. But maybe we take a step back for a minute. As you laid out at your Investor Day, a strategy around leading the next generation of snacking, right, with '26 and '27, really framed as a period of sort of profitability restoration -- before returning to a more balanced growth algorithm in '28 and beyond. Since then, you've now reported two quarters under that framework, what's giving you the most confidence so far that the strategy is working. And where do you still think investors may be underappreciating the degree of change underway at the company?

Kirk Tanner: Yes. I think you mentioned it yourself. But we started out the year with some clear objectives of deliver profit restoration great top line and invest for the future, right? So profit restoration, we're ready to deliver that, what we committed to for '26 and the outlook for '27 looks good. Top line growth -- the category is performing better than we estimated by about a point, a lot of innovation in the category. We're performing against our top line expectations again. So -- it's important that we deliver what we said we're going to deliver from a top line standpoint and then importantly, invest in future growth. And the investment in future growth was in our investment in R&D for the innovation pipeline, which we know is critical to the category. Our investment in our brands to create pull around our big brands so that we have our core business running well, plus an innovation pipeline that delivers the growth. So when you think about what we talked about in March at the Investor Day is each of those platforms are underpinned by capabilities. Those capabilities are speed to market with our innovation, customer excellence with our relationships with our customers, building partner of choice type relationships, and then building the capability across our confection business, our salty business, international and functional business. And we are on track to deliver against that, and we're in a really good place right now, from what we talked about at the beginning of the year to where we are with four months to go. We're very confident in what we've achieved this year and what we have to achieve for the rest of the year.

Andrew Lazar: Great. Hershey delivered another strong quarter in the second quarter. Organic sales and EPS both well above expectations. The full year guidance range raise was relatively contained with the company narrowing to sort of the upper half of the range rather than, let's say, raising the high end. We understand there were some timing items, including merchandising shipments pulled forward into 2Q some A&C weighted to the back half of the year.

I think investors are still trying to understand the framework. How should we think about the degree to which the second quarter upside was sort of timing related versus, let's call it, better true underlying elasticity and consumption that flowed through to the bottom line.

Kirk Tanner: Let me let Dave answer that. But before we get to let Dave answer that, I wanted to just say a few things about Dave, if that's okay.

Andrew Lazar: Absolutely.

Kirk Tanner: So we welcome our new CFO. You don't want me to talk about.

Dave Hulays: No, go for it. it was great.

Kirk Tanner: This is my opportunity. Dave has been a high-impact leader at Hershey for 15 years and has had every aspect of the business. I think this is a perfect example of succession planning and preparing a CFO for the future. And Dave has worked hand-in-hand with Steve over the years developing, getting those experiences. I worked with Dave on day one from how we operate the business, our commercial planning, our strategic planning. I'm excited to have Dave lead the future and be a partner to me. I just wanted to say that. I think it's important that we have great succession planning around these key roles like CFO, and we have that, and we're excited to have Dave here today.

Dave Hulays: Yes. Thanks for that, Kirk.

Kirk Tanner: No pressure.

Dave Hulays: None taken. Maybe before I answer your question, Andrew, just stepping back, I've had the opportunity to partner with Kirk and with Steve to both develop the strategies that went into the '26 plan and outlook as well as the longer-term outlook that we shared at Investor Day, including the capital allocation strategy and priorities. So I just want to reiterate what Kirk said, I feel we feel good about where we are with our '26 outlook and where we head from here. Specific to your question on Q2, the top line over delivery was primarily growth-driven, demand-driven on the business. Slightly better elasticities as well as strong performance in foodservice and specialty, which are non-measured channels.

As we look to the remainder of the year from a top line perspective, we're continuing to be prudent with our macro assumptions as it relates to the consumer, GLP-1 SNAP, gas price pressures, financial pressure on consumers. On EPS, I would say that there was some timing with media investment. That was a big part of the earnings story in the second quarter. So that's why you see the impact to moderate as we look to the full year outlook. But we do have a ramp up in media investment that is programmed around all of our activation, our innovation. And our seasons -- and we did plus some of that up where we saw opportunities coming out of the strong Q2 performance.

Andrew Lazar: Great. Maybe following up on that, when a company typically shows this much sort of upside and doesn't necessarily flow through more of that for the full year. Naturally, investors ask whether some of the reinvestment is more, let's say, offensive or defensive. In Hershey's case, I guess, is the increased second half spending primarily about maximizing a uniquely strong slate of innovation or innovation, Halloween, The Hershey movie, all the football activations? Or is it also some of it coming from a place of sort of need given you've still been losing some share within key confectionery?

Kirk Tanner: Well, we -- as you mentioned, we have a lot of activity that needs to be supported in the second half with The Hershey movie coming out, Halloween that we're looking forward to -- and then this innovation launch, we just launched Hershey Creme Bars. I think you can find them across the way there, along with Reese's Pieces cookies. So we have innovation that is supported. The upside that we had in the first half of the year gives us some flexibility, but we had already planned on investing at this level in the second half. We have looked at our opportunities to invest further to really advance our momentum in Q4 and in 2027. So we're evaluating those things. But I think for the most part, we had planned this level of activity, based on the shape of the year.

Andrew Lazar: Great. Yes. One question investors keep coming back to is sort of what happens once the benefit from the last round of pricing starts to roll off. Elasticities have remained somewhat better than planned so far. But volumes in North America confectionery area were still down meaningfully in the second quarter, obviously, partly reflecting the price, PPA and timing. So I guess as pricing begins to sort of anniversary, how quickly should investors expect volume trends to improve -- and what would give you confidence that the business can return to sort of positive volume growth rather than simply better price-led sales growth?

Dave Hulays: Yes. So we do expect volume to improve at least the trends to improve, as we -- as pricing moderates. I will say as we think about next year, there are macro headwinds we've talked about that are contemplated in our outlook and our framework. There will be some carryover pricing from previously announced pricing on seasons and PPA. We always do or always at least consider in our annual plan, some RGM activity surgically as well.

We're going to see an uptick. We're already seeing it in the back half of this year, but we're planning it over the full year next year is around innovation, particularly in our confection portfolio. And we feel good about how we're seeing innovation impact the category now and our opportunity to do much better and participate at a higher level next year. So that's part of the algorithm.

Soonest, we will expect a few brands to accelerate that volume trend faster because there's differentiated innovation and programming against them. One of them is Hershey. The other one is Jolly Rancher and another one is Cadbury. It will be a little bit bumpy in terms of when we see and how we see that volume move because there's a big lap of a big innovation, Oreo lap coming up, and there's a lot of dynamics around innovation and merchandising and seasons over the remainder of the year. But we're confident as we move through '27 and as we move into '28, we're confident behind our portfolio expansion an occasion expansion strategy and the fact that, that will translate into a better mix, a better balance of volume and price over the long term.

Andrew Lazar: Great. You've noted that the consumer has been broadly tracking sort of in line with your expectations with SNAP impacts modest so far. GLP-1 trend is also consistent with your planning assumptions. I guess that said, it's still a dynamic environment, especially for lower-income consumers. I guess what are you seeing most recently across channels, sort of pack sizes and occasions. And maybe what's your up-to-date sort of planning assumption around the sort of shape the macro environment can take from here as we think through the balance of '26 and into '27 and obviously now fuel prices back up.

Dave Hulays: Yes. The consumer has been resilient, and the category is performing well across income cohorts and across channels. If you break it down and maybe start with the low-income consumer. So they're adapting. And there's movement within channels and they're- there's more frequency going to convenience and online and into dollar stores. They continue to look for lower price and smaller packs as they're doing that, but they're eating more at home. And actually, that's translating into the low-end consumer -- low-income consumer in our categories actually growing at a higher rate than the mid- and high-income consumer, which is good, showing the resilience of the consumer and of the category. High-end consumers are also adapting more frequency in mass, online, club, larger packs, more value from a price per ounce standpoint. But we continue to see good participation across the all consumer cohorts.

And there are headwinds. We've talked about the headwinds. There's financial pressure. There's SNAP. There's GLP-1. We continue to maintain prudent assumptions within the remainder of the year outlook as well as into 2027 as well.

Talked about innovation. We're encouraged by the interest in the ongoing participation and the way that innovation is driving the category and translating into distribution and merchandising within the category, and we see ourselves in a much better position as we move through this year into next year.

- Andrew Lazar: Market share remains one of the biggest investor focus areas. Earlier in the year, you called out increased competitive innovation and merchandising, including from both mainstream, I think, and premium players, while also emphasizing that the pricing environment has remained rational. I believe this came up in your commentary around 2Q results as well.
- I guess as you sit here today, how would you characterize the competitive intensity in U.S. confection -- and what are the sort of key levers that should drive Hershey's share stabilization and eventual share growth from here?
- Kirk Tanner: Yes, let me comment on that and you can pile on. What I love about this category is its competitiveness. This is a category that is an emotional category that has a lot of meaningful innovation that keeps consumers hyper-interested in the category. We saw that competitively in the beginning of the year, a lot of competitive innovation that was gaining distribution, et cetera. When you saw the summer months start coming in, you saw momentum in the Hershey business, if you're tracking the last 4 weeks, you'll see the Hershey business growing faster than the category. So that's a kind of a tribute to some of our core growth and some of the tentpole activations around smaller, et cetera, like that. Now the second or the last four months of the year will play a role in driving category growth with innovation launches as well as some executions around The Hershey movie, like we talked about before. But the category is going to remain competitive through innovation and new consumer ideas. That's exciting. That drives growth -- it drives profitable growth through the retailer. It drives profitable growth for ourselves. It's not about price discount and "buy one, get one free," and those kind of elements that show up in other categories. You have to win consumers over with the best ideas and core brand relevance. And that's what we're prepared to go do. That's the investments we made to do just that to deliver a pipeline of innovation that we have for the back half of this year, but for next year. And we've already reviewed innovation for '28 and '29, so that we can see this pipeline of highly engaged innovation coming. And I think innovation that has purpose that goes after certain opportunities, if it's accessible premium or suites or better for you or functional, we're developing capabilities and skills in those areas so that we can be in the highest consumer growth basis.
- Andrew Lazar: I think one of the more interesting shifts in your strategy has been the move beyond traditional seasons into sort of year-round, as you call them, cultural tentpoles. Historically, Hershey's been synonymous with occasions like Halloween and Valentine's Day and Easter in reactivating around events such as S'mores, season, football, the World Cup and The Hershey movie. How do you think about the incrementality of these activations? How do you ensure that these efforts create a more durable sort of growth platform rather than sort of a one-time benefit that becomes a tougher comparison down the road, especially since some of these activations are not necessarily repeatable year in and year out.
- Kirk Tanner: Yes, cultural moments are so important to consumers and our retail partners. When you walk into a store, you want to see the relevance of what's going on in the world, what's going on in our country here if it's domestic, and that shows up in these cultural tentpole moments. So when I think about what Hershey is great at, season execution, so the core seasons our resources to deploy the best ideas and then activate it with our resources in the marketplace to execute with excellence.
- So we had that as a strength. The opportunity was, you had these peaks and valleys. So in between the seasons, there were opportunities, and there were big cultural moments like the 4th of July is a big cultural moment. Obviously, we played a role in celebrating the 250, but 4th of July happens every year, and that's relevant for both our confection business especially Hershey with the S'more season, but our Pretzel business, our salty snack business, it shows up.
- When you get into fall football, it's again, it's a repeatable tentpole moment where consumers gather, they celebrate, they party. Our brands belong in those spaces. In the past, we just executed the season, but these moments that are coming are important for the broader portfolio. Now the broader the portfolio that we have, we have more tools to execute against these moments where consumers gather, celebrate and leverage our brands. But those are those repeatable things. Now

we'll opportunistically take advantage of the Olympics or any other cultural moments that fit our World Cup as an example. But this will be a skill ongoing that we build so that we're kind of always on with our capability versus kind of peaks and valleys because our resources are in the marketplace to do just that.

Andrew Lazar: Innovation has clearly become a bigger part of The Hershey story from Reese's Oreo last year. Hershey's cream-filled bars, Reese's pieces with cookie, Jolly Rancher, premium offerings and functional snacking. At your Investor Day, you discussed a goal for a 3-year innovation to contribute a high single-digit percentage of revenue. What's changed inside the company's innovation process, right, that gives you the confidence that the company can sustain that higher innovation contribution over time?

Kirk Tanner: Yeah, well, we've built a lot of capability, and we're investing in resources against just that, just being able to go into the functional space, deliberately, we have a partnership with VitaKey that really puts the food science into deliverables against functional health like proteins and other functional solutions. So that's going to be important. You'll start to see those in our products, plus you'll see separately VitaKey comes to life.

I think there's other things that we looked at when we thought about bringing innovation to market, the time it takes, the resources required -- and we saw a need for two and two things: one, building platform innovation for multiple years, so that you're not just doing a one-hit wonder. So you're building a platform and then you're building on it and then you're building on it in the future. Separately, the time to get from ideation to commercialization is taking us too long. So we've reduced that by 90 days. And so we've gone through our R&D processes and our innovation processes and we're able to get faster to market with our innovation. So holistically being able to innovate in those spaces where consumers are looking for solutions and have higher growth in the rest of the category and then being able to get there faster is really the area of focus that we have.

Andrew Lazar: Maybe turning our focus to salty snacks. Consumer takeaway remains really encouraging. Reported results in the second quarter were held back more by supply constraints on multipacks and dots as well as some higher freight and logistics costs. Maybe you can walk through exactly where the bottlenecks were, maybe what plans are already in place around sort of automation and capacity and how confident you are that the supply issues are largely behind you as you move through the back half of this year and into '27.

Dave Hulays: Yes. I can go ahead.

Kirk Tanner: Yes.

Dave Hulays: Two challenges from a supply standpoint. The first one was Dot's, really driven by the strength of the performance on the core business as well as our snack mix business, which is now an 8% market share within the snack mix category, obviously put pressure on supply. We saw that coming. And so there's some automation coming in Q3, and there's also capacity coming online at the beginning of next year.

So, we see that, we're addressing it, and that's being improved as we move into '27, we'll be in a much better supply position. That had a knock-on effect on our multipacks, which are multi-brand packs, which suffered from on-shelf issues and holes as we were kind of rebuilding inventory and getting those packs back together. That's also being addressed. We're seeing that improve as we move through Q3 and if you step back and just think about household penetration growth across the salty business across Dot's, high demand, it's a healthy business. It's just a matter of us getting those issues fully addressed as we move through the year. And then we obviously see that upside next year. There's also been some issues that, that has caused from a logistics and freight standpoint. We expect those to be behind us by the time we get to '27.

Andrew Lazar: Maybe stepping back from the quarter. You laid it on an aspiration to move to the #2 position in U.S. salty snacks with the segment growing mid-single digits organically longer term and

ultimately reaching top quartile margins given you're still integrating and scaling brands like Dot's and SkinnyPop and Pirate's Booty, LesserEvil, I guess what are the biggest unlocks from here? Is it distribution capacity, innovation, category adjacency or the One Hershey sort of commercial model?

Kirk Tanner: Well, there's a couple of things. One, the positioning of the portfolio, I think it's really important to just take a step back and say, why is this portfolio working? Why is there outsized growth versus the category? We're going to continue to build permissible snacking. And I think that's the sweet spot where you look at these brands like SkinnyPop, LesserEvil, Dot's and Pirate's Booty there in this permissible snacking portfolio. So we see opportunities to stretch those brands. We have innovation coming out on those brands in multiple years that allow us to reach new consumers and new occasions and be more competitive across salty, all again under that lens of permissible snacking. So we'll continue to invest in that.

We're investing in some of the infrastructure like Dave said as well from a capacity standpoint, going through some growing pains as well. But we see a clear line of sight to be the #2 salty player in the space, and we want to own that permissible snacking occasion. We know that's going to grow faster with consumers, and we see a pipeline of innovation and brand building behind those areas. But that will be our main focus.

Andrew Lazar: Cocoa remains central to the earnings debate. You've said you have good visibility into cocoa deflation in '27, even if futures remain around current levels. Your hedging strategy gives you flexibility to participate if markets normalize further. Maybe you can update us on how you're thinking about sort of cocoa coverage, what degree of visibility you have into '27 costs at this point? Maybe how dependent the '27 EPS growth framework is on cocoa deflation versus factors more directly within your control?

Dave Hulays: Yes. We're getting a lot of those throughout the day. We have good visibility into deflation next year from Cocoa. And the framework that we built for 2027 that we shared at Investor Day, we also have good visibility into. It was built with flexibility for uncertainty and some of the volatility that we're seeing today. And the framework is built, yes, with cocoa deflation being a component, but also with many other components. So mix and normal RGM activity, innovation, driving volume as well as productivity and impact from our marketing investments as well as the execution with our One Hershey go-to-market model now. And I'll just say, as an aside, the ROIs in the first half of this year were up 8% leveraging our new market mix modeling capability. So AI-enabled much more dynamic real-time optimization capability as well as the investments that we're making into the assets, the brand assets and the production and the campaigns. So we've got more investment in the back half. We expect that investment to continue to work harder for us next year. So it's a balanced story. There will be cocoa deflation that we have good visibility to, but there's also strength in the operating execution and the delivery that will play a role in next year's algorithm.

Andrew Lazar: Great. At Investor Day, I think you framed '27 as another year of strong EPS growth with organic sales within the long term 2% to 4% algorithm. Since then, the operating environment certainly remained volatile and the shorter Easter creates a more modest starting point for North America confectionery as well. I guess, what gives you the confidence that the 2% to 4% framework still holds. And what are the biggest puts and takes investors should be thinking about as we bridge from '26 to '27 on the organic top line?

Dave Hulays: Yes. I mean, maybe do the puts and takes. So the macro headwinds, we're again being prudent. We're assuming those carryover. There will continue to be financial pressure. There is a shorter Easter, it's eight days shorter. So if you put those two things together, there's moderated growth in the category next year as the big pricing wave rolls off. Now we do have, I mentioned some carryover pricing from seasons and PPA or RGM activities that we typically do. And then innovation continues to be a driver of growth and expansion within the category. We are much better positioned as we move through next year, beginning at the beginning of the year all the way

through the end of the year. So that, combined with scaling up our One Hershey model, which already today is -- we're seeing some benefits from. We feel good about what that means for us from a confection standpoint.

Then when you move to salty, LesserEvil becomes organic, and we have strong plans to continue growth on that business. We've got Dot's supply coming online, which will help that business in the multipack business as well. And then the international business, you heard us talk about our anchor market and our focus at Investor Day. So we did some optimization work this year that's setting us up for additional focused investment and performance next year, I think mid-single-digit growth next year on the international business. So when you put all that together, we feel confident about that 2% to 4% long-term top line algorithm range next year.

Andrew Lazar: Functional snacking, another area you've highlighted with protein bars growing ahead of the category in the first quarter. GLP-1 users still participating in sort of smaller treats and Hershey investing behind one and fulfill and the VitaKey partnership. I guess how big can function ultimately become for Hershey -- and what capabilities do you need to build to compete credibly in a space where product claims, nutrition science and efficacy matter a lot more than, call it, the traditional confection space.

Kirk Tanner: Yes. This is exactly the focus of our investment and our partnership with VitaKey is to deliver something that's differentiated that can stand up against those claims. When you think about functional benefits, consumers are getting more intelligent on what's working and what's not working for them. And being able to have protein that really has an impact, as an example. And so our VitaKey relationship, you'll start to see VitaKey in our one portfolio, which has got sustained 12-hour release protein that's more satiating, more effective. That's going to be how we build. We will build a business that is sustainable, that is grounded in science and that delivers what consumers want. I think that's really important that we do that. The business is small for us today. So it's a big opportunity for growth, and it's one of our four growth pillars. So we're very committed to it.

Andrew Lazar: International has performed better than expected in the first half, strength in markets like Brazil, the U.K., Mexico remains a bit more challenged and some optimization work you've talked about expected to weigh on the back half. I guess, at Investor Day, you talked about becoming more intentional sort of in anchor markets where Hershey has scale, sort of category relevance and profit potential. Maybe you can talk about the path to making international a more consistent growth and margin contributor? And how important Reese's international expansion is to that equation?

Kirk Tanner: Yes. It's really -- Reese's is really important to it. Let's start with the markets first. You mentioned Canada, Mexico, Brazil. Those are core markets where we're gaining share. We've got a portfolio that delivers, that has meaningful brands in the marketplace. Our anchor market that we're focused on for the future as kind of an expansion is the European market, the U.K. and Europe. It's a huge scaled market, over \$70 billion in size. We started with Reese's and Reese's a challenger brand, and it's done very well in the U.K. And so we're going to build around that. This is a very focused international strategy where we can capture the opportunity, one, to build brands and deliver profitability. It is focused versus trying to go into several different countries at the same time in that approach. The anchor market strategy gives us focus and allows us to build brands and build a portfolio that's relevant for the marketplace that we're in. So we'll continue to thrive in those core markets, Canada, Mexico and Brazil, but look for us to build traction, momentum in the U.K. and Europe is a focused market for us.

Andrew Lazar: You announced One Hershey earlier this year, and it appears to represent a pretty meaningful shift in how you go to sort of market. How is the new model progressing so far?

Kirk Tanner: Yes. The feedback from our customers has been really good. And the focus for One Hershey was just that. It was to show up to our customer partners as one. And before we did One Hershey with

our customers and execution at the store, we'd already integrated our supply chain as One Hershey. So our supply chain was ready to deliver against One Hershey, and then before we went live with it, we also put it into test. We have these resources in the market. We have these resources in the market that are dedicated to execute exactly where you see Hershey show up seasons, our CMG business across retail, but our salty business wasn't getting that much attention. And so our ability to leverage our resources to show up to our customer and be able to execute across our portfolio is really what One Hershey is all about. And the customer feedback has been really good.

We'll continue to build on it, and you'll see it come to life in tentpoles. You'll see it come to life and how we build our brands, build an innovation pipeline, have customer partnership, our customer planning partnerships for the long term. That is the intention of One Hershey. And so far, so good.

Andrew Lazar: On capital allocation, you increased the buyback authorization while continuing to invest in capacity, automation brands, R&D, technology and people. You've talked about M&A as a way to enter or scale in attractive snacking white spaces, when internal brands maybe can't authentically stretch there. Dave, now that you're in the seat, I guess, how should investors think any differently about the capital allocation hierarchy from here, particularly M&A versus organic investment versus share repurchase and sort of earnings and cash flow recovery?

Dave Hulays: Yes, I've -- I mentioned this upfront, but I've had the opportunity to partner to build the capital allocation strategy and priorities really over the last few years. So I wouldn't expect there's no change from me in the near term. I love our approach. And it starts with strong cash flow.

We have strong cash flow. We have a solid balance sheet. Our leverage is less than 2x, and that gives us a lot of flexibility to invest in high-return, capital-efficient organic investments as well as pursue in a disciplined way, accretive M&A like we did with LesserEvil. Now we are committed to returning capital to shareholders as well. So we had a 6% dividend raise this year. We have \$440 million in buybacks so far this year, and we increased the authorization, as you mentioned, which really just speaks to the confidence that we have in the profit recovery and in the cash flows for the future. And we'll just continue to balance the internal investment, the M&A and the returning cash to shareholders in that competition for capital as we move forward.

Andrew Lazar: Maybe in our final two minutes before we go to the breakout, Kirk, maybe to close, what are you sort of most excited about that you think would get even more investors confident in Hershey's long-term algorithm?

Kirk Tanner: Yes. So if I look at '26 delivering against what we said at the beginning of the year and unpacking at the Investor Day. And as we move into '27, we are confident in the outlook of where we have talked about the business from a top line and a profit restoration standpoint. Our job is to deliver against that. And where I see the confidence is where we're building our brands, the momentum that we have, and the runway that we see in front of both our operational excellence and really the brand growth opportunities.

We've talked a lot about innovation. You can expect us to be an innovation leader over the next several years. But in the short term, delivering '26, delivering '27 and building a pipeline of growth for years to come is really what I'm excited about the long-term growth and profitability of the business.

Andrew Lazar: Good. Good place to break. Please join us in the breakout and join me in thanking Kirk and Dave for being here today.

Kirk Tanner: Thank you.

Dave Hulays: Thank you.