



**The Hershey Company**

**Second Quarter 2024 Earnings Results  
Prepared Remarks**

**July 31, 2024**

## C O R P O R A T E P A R T I C I P A N T S

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**Michele Buck**, *Chief Executive Officer and Chairman*

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

## P R E S E N T A T I O N

### **Anoori Naughton**

Good morning and welcome to the pre-recorded discussion of The Hershey Company's Second Quarter 2024 Earnings Results. I'm Anoori Naughton, Senior Director of Investor Relations. Joining me today are Hershey's Chairman and CEO, Michele Buck, and Hershey's Senior Vice President and CFO, Steve Voskuil.

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

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

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

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

### **Michele Buck**

Thank you, Anoori, and good morning everyone.

Today's operating environment remains dynamic with consumers pulling back on discretionary spending. Our business has been impacted by these trends, but we are pleased to see continued growth in the confection category and momentum building in our Salty Snacks portfolio. Our second-half innovation is expected to bring energy to our categories, and we are confident our evolving strategies will meet consumers' changing needs and drive long-term success.

In the second quarter, consumers continued to seek value options and reduce trips. Despite this challenging environment, we are pleased to see growth within the confection category with everyday Candy, Mint &

Gum retail sales, up 2% year-to-date, supporting the long-term health of the category and our strategic growth plans.

While the confection category continues to outpace many other food categories, it was affected by these consumer trends, especially in the last two months. Hershey was particularly impacted, given our strength in the convenience channel, which saw a notable slowdown in the quarter. While we had expected trends to moderate in the second quarter, results came in slightly below expectations as key consumer and class of trade trends weakened.

Consumer shopping patterns continue to evolve in the current environment, allowing us to leverage our advanced retail capabilities to meet consumers where they shop. The confection category is underdeveloped in some classes of trade seeing high growth right now, like club and e-commerce, which presents an opportunity to leverage our category management capabilities to drive penetration in these spaces. For example, several years ago there was little to no front end in dollar stores. Our teams have transformed this space by creating new store formats with queuing lines to drive increased shopper engagement and conversion rates. Given our categories are fast moving, high margin, and basket building, we continue to see high retailer receptivity to these programs. This has resulted in our sales growing at a mid-teen annualized rate in the dollar channel over the past three years.

Consistent with what we shared earlier this year, we expect our overall business results to improve in the second half of the year. For the full year, we continue to expect low single-digit net sales growth in North American confectionery. We have strong plans in place, including higher levels of merchandising, more innovation, and good visibility into seasons, which have continued to be a strength for us. All of this should improve growth in the second half of 2024 and into 2025.

Our summer programs are now in full force, including our first-ever summer seasonal shape, Reese's Medals, along with Patriotic Kisses, and Ice Breakers Golden Pineapple Gum and Mints. We have a fresh marketing campaign and activation across advertising, social media, and in-store displays featuring Olympic Newcomer Sophia Smith, and Olympic Legend Alex Morgan.

We are also excited about our second half innovation plans, across both chocolate and sweets, including a new Reese item that leverages the success of our layers technology.

We are thrilled to launch Shaq-a-licious, our extra-large gummy line collaboration with Shaquille O'Neal. Retailer interest and sell-in has been very strong and a variety of fun flavors and unique shapes will soon be hitting the shelves. The launch will be supported by a social-first approach focused on content and collaboration, leveraging Shaquille's super-sized persona, ecosystem and following. In September, fans can visit a unique pop-up experience in New York City to celebrate the world's biggest kid and his gummy launch.

Later this year we will also launch a new Jolly Rancher gummy form, supported by new capacity and capabilities, diversifying our sweets portfolio into a fast-growing segment that captures new palates and occasions. These additions are expected to be highly incremental to our existing portfolio and accelerate growth into 2025 and beyond.

Our Halloween and Holiday expectations are unchanged from our prior outlook. Retailers continue to prioritize seasons given strong consumer affinity for these celebrations, as we saw with Easter earlier this year, and our teams are prepared to deliver more memorable moments of goodness later this year.

Now turning to our North America Salty Snacks segment performance, we are pleased to see Q2 net sales growth deliver above expectations, despite a tougher macro environment, reflecting robust consumer demand for Dot's and strong execution by our teams.

Hershey Salty Snacks retail sales growth of 8.0% in Q2 led to a 22 basis point share gain in salty snacking. We are encouraged to see SkinnyPop sales stabilizing as expected as we begin to lap the consumer behavior changes that impacted the Ready-to-Eat popcorn category last year. Our investments in innovation, merchandising, and media have increased household penetration and accelerated performance across all three brands.

For the full year, we expect North America Salty Snacks segment sales growth of mid single digits. Our team has exciting innovation, distribution, and media plans for the rest of the year, including a new flavor of Dot's—Parmesan Garlic—hitting shelves right now. We remain on track to return SkinnyPop to growth in the second half.

Reported net sales in our International segment declined high single digits, driven by the previously discussed exit of our Mexico beverage business and planned depletion of S/4-related inventory builds. Excluding these items, sales were up mid single digits, more in line with our full-year outlook, driven by double-digit growth in Europe, AMEA, and India, partially offset by declines in Brazil and LatAm. We have robust innovation pipelines in both markets for the second half of the year, which we believe will accelerate growth.

We can confidently say our ERP implementation in the quarter was a success with little to no disruption across our network or in the marketplace. Retailer feedback on our transition has been highly positive and speaks to strong partnership, planning, and execution by our teams. We are starting to see synergies from better end-to-end connectivity enabled by S/4. For example, we now can now ship all of our salty snacks brands on a single truck for the first time, which has improved demand planning and service levels across customers.

In this dynamic environment, our investments in technology, supply chain, brands, capabilities, and people have elevated our ability to evolve and meet the changing needs of our customers and consumers.

Now, before I turn it over to Steve, let me share an update on cocoa and the important steps we are taking to address these pressures.

Our robust hedging program gives us visibility into our costs and helps to smooth the impact of market volatility over time. While cocoa prices have improved since our last earnings call, they are still significantly ahead of prior year. Given what we know about '25, we have taken a first step to cover some of the expected inflation with pricing. We will work closely with our retail partners to implement our announced pricing, including price pack architecture, in the coming months to partially offset these significant costs, enable continued investment in our brands, and drive future category innovation and growth.

Our pricing philosophy has not changed and we remain committed to our long-term strategy of pricing to cover raw material inflation over time while investing in our strong brands to drive consumption. We remain confident in the long-term outlook and the levers we have to both grow our business and manage profitability over time.

With that, let me turn it over to Steve to provide more details on our financial results and outlook.

**Steve Voskuil**

Thank you, Michele, and good morning everyone.

Second quarter results reflected the planned reduction of inventory built in Q1 ahead of the April ERP implementation. Additionally, as Michele noted, we saw some incremental retailer inventory contraction and seasonal shipment shifts impact the quarter.

Reported net sales declined 16.7% in Q2. Our team's successful ERP execution allowed us to resume service levels early in the quarter. This gave retailers confidence to deplete ERP-related inventory builds which comprised 9 points of our Q2 decline, in line with expectations.

Outside of ERP-related changes, we planned for confection retail inventory levels to follow a similar pattern as recent years, building in Q2 and gradually drawing down through the second half the year. In fact, retailers reduced inventory in the quarter to levels more consistent with year-end levels. This, combined with the timing of seasonal shipments, comprised an additional headwind to shipments in the quarter. For the full year, we do not anticipate a material impact from inventory as Q2 levels approximate where we expect to be at the end of the year.

The North America Confectionery segment net sales declined 20.7%, driven by net price realization of approximately 1%, offset by an approximate 22% decline in volume. Volume was impacted by 11 points of planned inventory depletion from our April ERP implementation, about 6 points from lower retailer inventory than prior year, and approximately 2 to 3 points of Halloween shipments that were expected in Q2 but shifted to Q3. Excluding these items, the base business declined low single digits, driven by an expected reduction in merchandising versus the prior year, and weaker-than-planned consumer trends, particularly in the convenience channel.

North America Salty Snacks segment net sales growth of 6.4% was driven by continued strength in Dot's Pretzels and a return to growth in Pirate's Booty, partially offset by expected declines in SkinnyPop related to broader category softness. While the Ready-to-Eat popcorn category remains soft, SkinnyPop sales, volume, and share trends continued to improve in the second quarter compared to Q1 and compared to the second half of last year, behind media, distribution, and merchandising increases. In the second half, we expect SkinnyPop declines to continue to moderate and return to growth by year-end. We expect Dot's to continue to grow double digits behind new flavor innovation, but moderate as we lap last year's incremental club distribution.

Our International segment net sales decline of 8.9% was driven by the planned exit of the beverage business in Mexico completed in Q2 of last year, and depletion of ERP-related inventory built in Q1. Adjusting for these items, net sales increased mid single digits on strength in Europe, AMEA, and India.

Adjusted gross margin of 43.2% was ahead of expectations, driven largely by input cost timing-related favorability, which also affected reported gross margin. We expect this to largely reverse in the second half and there is no change to our full-year gross margin outlook. We continue to expect declines of approximately 200 basis points as cocoa and sugar inflation more than offset net price realization and supply chain productivity.

Advertising and related consumer marketing decreased 15% in the second quarter with declines driven by reduced sales in North America Confectionery and International. However, consumers continued to see our strong presence in the marketplace with impressions up 15% versus the prior year. Adjusted operating expenses, excluding advertising and related consumer marketing spend, declined 4% as elevated investments in capabilities and technology were offset by reduced incentive compensation costs.

We remain on track to deliver an incremental \$100 million in savings this year as part of our AAA initiative, largely to be realized in division and corporate expenses. As we shared previously, we expect the majority of these savings to be realized in the second half of the year.

The adjusted tax rate for the quarter was 24.4%, an increase of 16.1 points versus the year-ago period, driven by higher levels of renewable tax credits in the prior year period. We continue to expect a full year tax rate of approximately 13%, with other expense of approximately \$220 million to \$230 million.

Interest expense of \$41 million was in line with expectations and we continue to expect full-year expense of \$165 million to \$175 million.

Capital additions including software were \$130 million in Q2, supporting our previously discussed capacity expansion projects and ERP implementation. We expect this pace to moderate and return to more historical levels in the second half. We now expect full-year capital investments of \$600 million to \$625 million.

In the second quarter, dividends paid to shareholders totaled \$271 million, an increase of 31.2% versus the prior year period. This reflects the strength of the Company's performance over the past several years and our commitment to a dividend payout ratio of at least 50% over time. Additionally, the Company completed our planned share buybacks for the year, completed \$400 million of repurchases in the first half. There is \$470 million remaining under the December 2023 authorization.

Before I discuss the updated full-year outlook, let me provide some context on the first half to help with visibility through the ERP transition impacts.

Total Company-reported net sales declined 2.8% in the first half. Excluding approximately 3 points of timing headwinds from retailer inventory and seasonal shipments, as well as the impact of a shorter Easter, the base business was up slightly, approximately half a point below our expectations. Confection consumption in Q2 slowed more than we had planned, offsetting the slight outperformance versus expectations we saw in Q1.

For the full year, we are narrowing our net sales outlook to approximately 2% as we adjust our category outlook for the softer trends observed across snacking recently. However, consistent with our prior outlook, we expect an acceleration in our performance in the second half across all three segments. As Michele discussed, this reflects our strong innovation and merchandising plans, as well as greater contribution from seasons. We are also lapping the onset of several headwinds from last summer, including merchandising reductions at a key retailer, softness in the Ready-to-Eat popcorn category, and the planned exit of the dairy business in Mexico. Lastly, we have a strong visibility on approximately 4 points of second half net sales growth that relates to shipment timing and two extra shipping days. Our recently announced pricing is expected to primarily benefit 2025 and have minimal impact on 2024.

Adjusted earnings per share declined 12.5% in the first half as lower sales, gross margin declines, higher capability and technology investments, and a higher tax rate year-over-year were partially offset by reduced SG&A related to lower sales and reduced incentive cost. Our full-year EPS is now expected to be down slightly, driven by the reduction in our top line outlook to the low end of our previous range.

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

**Michele Buck**

Thanks Steve.

We have a strong track record of adapting when there are changes in the business environment and succeeding long term. With strong brands in growing categories, a highly efficient and agile supply chain, advanced capabilities in analytics, media, category management and sales, we are well positioned to meet the changing needs of our consumers for many years to come. We remain confident in our long-term outlook and the levers we have to both grow our business and manage profitability over time.

Thank you for your time this morning. I invite you to listen to our live question-and-answer webcast, which will begin at 8:30 a.m. Eastern Time today, and will be available at [thehersheycompany.com](http://thehersheycompany.com). Thank you for your continued support and interest in Hershey.