

# Hershey Reports First-Quarter 2021 Financial Results; Raises 2021 Net Sales and Earnings Outlook

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**The Hershey Company** →

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HERSHEY, Pa., April 29, 2021 /PRNewswire/ -- The Hershey Company (NYSE: HSY) today announced net sales and earnings for the first quarter ended April 4, 2021, and raised its full-year financial outlook.

"We are off to an outstanding start in 2021, with broad-based growth across the portfolio leading to double digit sales and earnings growth in the first quarter and an increased outlook for the full year," said Michele Buck, The Hershey Company President and Chief Executive Officer. "As COVID-19 vaccines roll out across the globe, consumers are optimistic about the future and looking forward to spending more time with their family, friends and community. As we have seen over our 127-year history, our portfolio of beloved brands plays an important role in these special moments of connection, comfort and happiness. We expect continued investments in our brands, capabilities and people along with our agility to respond to and capitalize on marketplace opportunities, to drive sustainable, advantaged performance not only in 2021, but in years to come as well."

## **First-Quarter 2021 Financial Results Summary<sup>1</sup>**

- Consolidated net sales of \$2,295.9 million, an increase of 12.7%.
- Organic, constant currency net sales increased 12.9%.
- Divestitures and foreign currency exchange each had a 0.1 point negative impact on net sales.<sup>2</sup>
- Reported net income of \$395.8 million, or \$1.90 per share-diluted, an increase of 47.3%.
- Adjusted earnings per share-diluted of \$1.92, an increase of 17.8%.

<sup>1</sup> All comparisons for the first quarter of 2021 are with respect to the first quarter ended March 29, 2020

<sup>2</sup> Reflects the 2020 divestitures of KRAVE Pure Foods, Inc. (Krave) and the Scharffen Berger and Dagoba brands

## 2021 Full-Year Financial Outlook

The company is updating its 2021 net sales and earnings per share outlook to reflect the strength of its performance in the first quarter and expectations for the balance of the year:

- Full-year net sales growth is now expected to be in the range of 4% to 6%, an increase from the previously communicated range of 2% to 4%.
- Full-year reported earnings per share are now expected to be in the range of \$6.64 to \$6.86, an increase of approximately 9% to 12% from \$6.11 in fiscal 2020.
- Full-year adjusted earnings per share are now expected to be in the range of \$6.79 to \$6.92, an increase of 8% to 10% from \$6.29 in fiscal 2020, and an increase from the previously communicated range of 6% to 8%.

The primary drivers of the increased outlook are stronger than anticipated consumer mobility and incremental distribution and merchandising opportunities in North America confection. Volume gains, partially offset by higher input costs and incentive compensation, are expected to result in higher earnings per share growth for full-year 2021.

Below is a reconciliation of projected 2021 and full-year 2020 earnings per share-diluted calculated in accordance with U.S. generally accepted accounting principles (GAAP) to non-GAAP adjusted earnings per share-diluted:

	<u>2021 (Projected)</u>	<u>2020</u>
Reported EPS – Diluted	\$6.64 – \$6.86	\$6.11
Derivative Mark-to-Market Losses	—	0.03
Business Realignment Activities	0.07 – 0.19	0.15
Acquisition-Related Costs	—	0.03
Long-Lived Asset Impairment Charges	—	0.04
Pension Settlement Charges Relating to Company-Directed Initiatives	—	0.02
Noncontrolling Interest Share of Business Realignment and Impairment Charges	0.01	(0.02)
Other Miscellaneous Benefits	(0.01)	(0.01)
Tax Effect of All Adjustments Reflected Above	(0.01 – 0.04)	(0.06)
Adjusted EPS – Diluted	<u>\$6.79 – \$6.92</u>	<u>\$6.29</u>

2021 projected earnings per share-diluted, as presented above, does not include the impact of mark-to-market gains and losses on our commodity derivative contracts that will be reflected within corporate unallocated expense in segment results until the related inventory is sold since we are not able to forecast the impact of the market changes.

### First-Quarter 2021 Results

Consolidated net sales were \$2,295.9 million in the first quarter of 2021 versus \$2,037.3 million in the year ago period, an increase of 12.7%. Continued momentum in the North America segment, complemented by accelerated recovery of the International & Other segment, resulted in volume gains of 11.0 points. Price realization contributed an additional 1.9-point benefit. Foreign exchange was a 0.1-point headwind, and the impact of divestitures was also a 0.1-point headwind driven by the 2020 sales of Krave and the *Scharffen Berger* and *Dagoba* brands.

Reported gross margin was 45.7% in the first quarter of 2021, compared to 42.5% in the first quarter of 2020, an increase of 320 basis points. This increase was driven by higher derivative mark-to-market commodity gains. Adjusted gross margin was 45.8% in the first quarter of 2021, compared to 46.6% in the first quarter of 2020, a decrease of 80 basis points. This decrease was driven by raw material and packaging cost inflation as well as increased supply chain costs related to higher than anticipated demand, including one-time incentives for manufacturing employees.

Selling, marketing and administrative expenses increased 4.1% in the first quarter of 2021 versus the first quarter of 2020 driven by advertising increases in the North America segment and corporate expenses. Advertising and related consumer marketing expenses increased 2.8% in the first quarter of 2021 versus the same period last year driven by increased investment in core brands, innovation, and incremental sponsorships in North America. Selling, marketing and administrative expenses, excluding advertising and related consumer marketing, increased 4.8% versus the first quarter of 2020. This increase was driven by higher accruals for incentive compensation as well as investments in capabilities and technology, partially offset by COVID-19-related travel and meeting savings.

First-quarter 2021 reported operating profit of \$553.0 million increased 44.5% versus the first quarter of 2020, resulting in an operating profit margin of 24.1%, an increase of 530 basis points. Adjusted operating profit of \$555.7 million increased 17.9% versus the first quarter of 2020, resulting in an adjusted operating profit margin of 24.2%, an increase of 110 basis points. The increases in both reported and adjusted operating profit were driven by strong volume gains in the North America and International and Other segments, partially offset by gross margin pressures from higher input costs and supply chain complexities to service strong demand, along with increases in advertising, incentive compensation, and investments in capabilities and technology.

The effective tax rate in the first quarter of 2021 was 22.8%, an increase of 300 basis points versus the first quarter of 2020. The adjusted tax rate in the first quarter of 2021 was 22.5%, an increase of 340 basis points versus the first quarter of 2020. Both the effective and adjusted tax rate increases were driven by lower tax credits and lower benefits related to employee share-based payments versus the year ago period.

The company's first-quarter 2021 results, as prepared in accordance with GAAP, included items positively impacting comparability of \$3.7 million, or \$0.02 per share-diluted. For the first quarter of 2020, items positively impacting comparability totaled \$86.3 million, or \$0.34 per share-diluted.

The following table presents a summary of items impacting comparability in each period (see Appendix I for additional information):

	Pre-Tax (millions)		Earnings Per Share-Diluted	
	Three Months Ended		Three Months Ended	
	April 4, 2021	March 29, 2020	April 4, 2021	March 29, 2020
Derivative Mark-to-Market (Gains) Losses	\$ (2.3)	\$ 81.8	\$ (0.01)	\$ 0.39
Business Realignment Activities	6.9	0.9	0.04	—
Acquisition-Related Activities	0.2	1.7	—	0.01
Long-Lived Asset Impairment Charges	—	7.5	—	0.04
Noncontrolling Interest Share of Business				
Realignment and Impairment Charges	1.1	(2.4)	0.01	(0.01)
Other Miscellaneous Benefits	(2.2)	(3.2)	(0.01)	(0.01)
Tax effect of all adjustments reflected above	—	—	(0.01)	(0.08)
	<u>\$ 3.7</u>	<u>\$ 86.3</u>	<u>\$ 0.02</u>	<u>\$ 0.34</u>

The following are comments about segment performance for the first quarter of 2021 versus the year-ago period. See the schedule of supplementary information within this press release for additional information on segment net sales and profit.

### North America (U.S. and Canada)

Hershey's North America segment net sales were \$2,081.9 million in the first quarter of 2021, an increase of 12.8% versus the same period last year. Volume gains contributed 11.0 points to net sales growth, driven by continued momentum in the take-home chocolate portfolio, strong seasonal performance, and accelerated recovery of non-measured businesses including food service and specialty retail. These gains were complemented by two additional order days in the quarter. Net price realization was a 1.7-point benefit driven by list price increases and trade favorability due to base volume gains and channel mix. Foreign currency exchange was a 0.2-point benefit. The impact of divestitures was a 0.1-point headwind driven by the 2020 sales of Krave and the *Scharffen Berger* and *Dagoba* brands.

Total Hershey U.S. retail takeaway for the year-to-date period ending April 18, 2021<sup>3</sup>, in the expanded multi-outlet combined plus convenience store channels (IRI MULO + C-Stores) increased 7.1% versus the prior-year period. Retail takeaway lagged net sales growth in the first quarter due to the strong recovery of away from home businesses, retailer inventory replenishment and two additional days this quarter. Hershey's U.S. candy, mint and gum (CMG) retail takeaway increased 7.6%, resulting in a category market share gain of nearly 80 basis points in the period. This increase was driven by strength in both the Valentine's and Easter seasons, along with continued momentum in the everyday take-home chocolate portfolio. Sales of Hershey's salty snacks increased 10.3% in the year-to-date period. This strength was slightly offset by declines in Hershey's baking and refreshment products. Sales of Hershey's baking items, including peanut butter, syrup, chips and cocoa, declined 4.1% year-to-date due to lapping significant stock-up growth in the year ago period, though the two-year consumption trend remains positive with growth of 10.6%. Hershey's refreshment products decreased 4.9% in the year-to-date period, an improvement versus second half 2020 trends as mobility increased versus the prior year.

Gross margin decreased 110 basis points driven by the previously mentioned raw material, packaging and supply chain costs, which were partially offset by higher volume and net price realization. North America advertising and related consumer marketing expenses increased

3.4% in the first quarter of 2021 versus the same period last year. This increase was driven by increased support on core brands and innovation along with the sponsorship of NCAA March Madness that was canceled in the prior year due to COVID-19. Strong sales were partially offset by gross margin pressures and increased selling, marketing and administrative expenses, resulting in a segment income increase of 13.8% to \$661.6 million in the first quarter of 2021, compared to \$581.6 million in the first quarter of 2020.

<sup>3</sup> *Includes candy, mint, gum, salty snacks, and grocery items*

### **International and Other**

First-quarter 2021 net sales for Hershey's International and Other segment increased 11.2% versus the same period last year to \$214.1 million. Excluding a 3.7-point headwind from foreign currency exchange rates, constant currency net sales increased 14.9%. Volume and price realization were a 11.0 point and 3.9-point benefit, respectively. While trends in these markets remain volatile, first quarter results were ahead of expectations due to stronger than expected consumer mobility.

The International and Other segment reported a \$33.8 million profit in the first quarter of 2021, reflecting a 111.4% increase versus the prior year period. Profit increases were driven by volume growth and continued operational efficiencies.

### **Unallocated Corporate Expense**

Hershey's unallocated corporate expense in the first quarter of 2021 was \$139.7 million, an increase of \$13.6 million, or 10.8% versus the same period of 2020. This increase was driven by higher incentive compensation and incremental investments in capabilities and technology.

### **Live Webcast**

At approximately 7:00 a.m. (Eastern time) today, Hershey will post a pre-recorded management discussion of its first-quarter 2021 results and business update to its website at [www.thehersheycompany.com/investors](http://www.thehersheycompany.com/investors). In addition, at 8:30 a.m. (Eastern time) today, the company will host a live question and answer session with investors and financial analysts. Details to access this call are available on the company's website.

**Note:** In this release, for the first-quarter 2021, Hershey references income measures that are not in accordance with GAAP because they exclude certain items impacting comparability, including gains and losses associated with mark-to-market commodity derivatives, business realignment activities, acquisition-related activities, and other miscellaneous benefits. These non-GAAP financial measures are used in evaluating results of operations for internal purposes and are not intended to replace the presentation of financial results in accordance with GAAP. Rather, the company believes exclusion of such items provides additional information to investors to facilitate the comparison of past and present operations. A reconciliation of the non-GAAP financial measures referenced in this release to their nearest comparable GAAP financial measures as presented in the Consolidated Statements of Income is provided below.