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

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The Hershey Company →
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HERSHEY, Pa., Oct. 28, 2021 /PRNewswire/ -- The Hershey Company (NYSE: HSY) today announced net sales and earnings for the third quarter ended October 3, 2021, and raised its full-year financial outlook.

"Consumer demand for our brands has remained robust on both a one- and two-year basis," said Michele Buck, The Hershey Company President and Chief Executive Officer. "Our continued focus on operating with speed and agility has enabled us to respond quickly to changes in the marketplace and develop plans to maintain sales momentum, increase production and sustain our advantaged margin structure over the long term. We are raising both sales and earnings guidance for 2021 to reflect elevated consumer demand across markets, an improved tax outlook and optimized brand investment, which, collectively, are expected to more than offset higher supply chain costs and inflation."

Third-Quarter 2021 Financial Results Summary[1]

- Consolidated net sales of $2,359.8 million, an increase of 6.3%.
- Organic, constant currency net sales increased 4.4%.
- The impact of acquisitions on net sales was a 1.4-point benefit[2], and foreign currency exchange was a 0.5-point benefit.
- Reported net income of $444.9 million, or $2.14 per share-diluted, in line with the prior period.
- Adjusted earnings per share-diluted of $2.10, an increase of 12.9%.

[1] *All comparisons for the third quarter of 2021 are with respect to the third quarter ended September 27, 2020*

[2] *Reflects the 2021 acquisition of Lily's Sweets, LLC*

2021 Full-Year Financial Outlook

The company is updating its 2021 net sales and earnings outlook:

- Full-year net sales growth is now expected to be in the range of 8% to 9%, an increase from the previously communicated range of 6% to 8%.
    - The net impact of acquisitions and divestitures is anticipated to be a 0.7-point benefit.

- Full-year reported earnings per share are now expected to be in the range of $6.88 to $7.04, an increase of 13% to 15% from $6.11 in fiscal 2020, and an increase from the previously communicated range of 8% to 12%.
- Full-year adjusted earnings per share are now expected to be in the range of $6.98 to $7.11, an increase of 11% to 13% from $6.29 in fiscal 2020, and an increase from the previously communicated range of 8% to 10%.

The increase in outlook reflects stronger than anticipated consumer demand, an improved tax outlook and optimized brand investment, which, collectively, are expected to more than offset higher supply chain costs and inflation.

The company also expects:

- A reported and adjusted effective tax rate in the range of 15% to 16% versus the previous outlook of 17% to 18%, driven by the utilization of certain capital losses.
- Other expense, which primarily reflects the write-down of equity investments that qualify for tax credits, remains approximately $125 million for 2021.
- Capital expenditures of approximately $500 to $525 million versus the previous outlook of $550 million largely due to project timing.

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:

	2021 (Projected)	2020
Reported EPS – Diluted	$6.88 – $7.04	$6.11
Derivative Mark-to-Market Losses	—	0.03
Business Realignment Activities	0.08 – 0.10	0.15
Acquisition-Related Costs	0.03 – 0.04	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	(0.03)	(0.01)
Tax Effect of All Adjustments Reflected Above	(0.02)	(0.06)
Adjusted EPS – Diluted	$6.98 – $7.11	$6.29

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 are 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.

Third-Quarter 2021 Results

Consolidated net sales were $2,359.8 million in the third quarter of 2021 versus $2,219.8 million in the prior year period, an increase of 6.3%. Price realization was a 3.1-point benefit driven by gains in both the North America and International & Other segments. Volume drove an incremental 1.3-point benefit as at-home consumption remained strong and away-from-home consumption improved. This growth lagged consumer demand as capacity constraints and industry-wide supply chain disruptions resulted in lower retailer and distributor inventory levels. Changes in year-over-year retailer and distributor inventory levels versus the prior year period resulted in an approximate 6-point headwind to net sales growth this quarter. Sales from the acquisition of Lily's Sweets, LLC was a 1.4-point benefit and foreign exchange was a 0.5-point benefit.

Reported gross margin was 45.0% in the third quarter of 2021, compared to 48.7% in the third quarter of 2020, a decrease of 370 basis points. This decrease was driven by lower derivative mark-to-market commodity gains and higher supply chain costs. Adjusted gross margin was 44.3% in the third quarter of 2021, compared to 45.4% in the third quarter of 2020, a decrease of 110 basis points. Industry-wide supply chain challenges, against a backdrop of sustained demand, resulted in higher logistics, labor and packaging costs. Unfavorable mix also contributed to lower margins versus the prior year period. These headwinds were partially offset by pricing, the timing of seasonal markdown reserves and productivity initiatives.

Selling, marketing and administrative expenses increased 3.7% in the third quarter of 2021 versus the third quarter of 2020 driven by an increase in corporate expenses. Advertising and related consumer marketing expenses declined 3.6% in the third quarter of 2021 versus the same period last year driven by lower advertising in the North America segment in response to sustained consumer demand and capacity constraints on select brands. Selling, marketing and administrative expenses, excluding advertising and related consumer marketing, increased 8.1% versus the third quarter of 2020. This increase was driven by higher capability and technology investments against lower 2020 levels due to COVID-19, along with elevated benefit costs and inflation.

Third-quarter 2021 reported operating profit of $574.8 million decreased 6.0% versus the third quarter of 2020, resulting in an operating profit margin of 24.4%, a decrease of 310 basis points. This decrease in reported operating profit and margin was driven by the previously mentioned gross margin pressures, including lower derivative mark-to-market commodities gains versus the prior year. Adjusted operating profit of $563.0 million increased 3.6% versus the third quarter of 2020 driven by pricing and reduced levels of advertising, largely offset by higher costs from supply chain complexities and inflation. Despite higher adjusted operating profit, adjusted operating profit margin decreased by 60 basis points to 23.9% due to gross margin pressures.

The reported effective tax rate in the third quarter of 2021 was 14.7%, a decrease of 580 basis points versus the third quarter of 2020. The adjusted effective tax rate in the third quarter of 2021 was 14.7%, a decrease of 680 basis points versus the third quarter of 2020. Both the reported and adjusted effective tax rate decreases were driven by the utilization of certain capital losses, as well as the timing of tax credits versus the prior year.

The company's third-quarter 2021 results, as prepared in accordance with GAAP, included items negatively impacting comparability of $11.9 million, or $0.04 per share-diluted. For the third quarter of 2020, items negatively impacting comparability totaled $68.1 million, or $0.28 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) Three Months Ended				Earnings Per Share-Diluted Three Months Ended			
	October 3, 2021		September 27, 2020		October 3, 2021		September 27, 2020	
Derivative Mark-to-Market Gains	$	(18.5)	$	(71.8)	$	(0.09)	$	(0.34)
Business Realignment Activities		3.4		—		0.02		—
Acquisition-Related Activities		3.2		3.7		0.02		0.02
Tax effect of all adjustments reflected above		—		—		0.01		0.04
	$	(11.9)	$	(68.1)	$	(0.04)	$	(0.28)

Segment performance for the third quarter of 2021 versus the prior year period are detailed below. 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 $2,125.6 million in the third quarter of 2021, an increase of 5.5% versus the same period last year. Price realization contributed 2.4 points of growth driven by list price increases, as well as the timing of favorable seasonal markdown reserves given stronger visibility into Halloween versus the same time in the prior year. Continued dual-strength of at-home and away-from-home consumption in both confection and snacking drove volume gains of 1.3 points. The net impact of acquisition from Lily's was a 1.5-point benefit, while foreign currency exchange was a 0.3 point benefit.

Total Hershey U.S. retail takeaway, including Lily's, for the twelve-week period ended October 3, 2021[3] in the expanded multi-outlet combined plus convenience store channels (IRI MULO + C-Stores) increased 8.9% on a one-year basis and 16.9% on a two-year basis. Hershey's U.S. candy, mint and gum (CMG) retail takeaway increased 8.0% in the latest 12 weeks, driven by strong growth in both the company's everyday and seasonal products. Hershey's everyday instant consumable products increased 6.9% as mobility and trips were strong and refreshment products recovered versus the prior year period. Everyday take-home products increased 6.7% behind sustained elevated at-home consumption. Hershey's CMG share declined approximately 100 basis points, in line with expectations due to significant growth in the prior year period but remains well above pre-pandemic levels with gains of approximately 100 basis points on a two-year basis. Skinny Pop and Pirate's Booty increased 23.3% and 27.0%, respectively, driven by strong consumer demand. This strength was slightly offset by declines in baking and syrup products. Sales of Hershey's baking items, including Lily's, decreased 5.5% in the latest 12-week period, as consumers continue to bake less this year than during the first year of the pandemic. Retail takeaway remains up double-digits on a two-year basis for both Hershey-branded and Lily's-branded baking items.

Gross margin decreased 140 basis points in the third quarter of 2021 driven by the previously mentioned logistics, labor and packaging costs along with unfavorable product mix, which were partially offset by net price realization and lower seasonal markdown reserves versus prior year. North America advertising and related consumer marketing expenses decreased 5.2% in the third quarter of 2021 versus the same period last year driven by lower advertising spend. Strong sales and lower advertising expenses were partially offset by gross margin headwinds and operating expenses, resulting in a segment income increase of 2.9% to $666.1 million in the third quarter of 2021, compared to $647.1 million in the third quarter of 2020.

[3] *Includes candy, mint, gum, salty snacks, and grocery items*

International and Other

Third-quarter 2021 net sales for Hershey's International and Other segment increased 13.9% versus the same period last year to $234.2 million. Excluding a 2.5-point benefit from foreign currency exchange rates, constant currency net sales increased 11.4%. Price realization was a 9.5-point benefit and volume contributed an additional 1.9 points to net sales growth.

The International and Other segment reported a $38.7 million profit in the third quarter of 2021, reflecting an increase of $14.2 million versus the prior year period. Profit increases were driven by net price realization and volume gains, partially offset by higher supply chain costs, mainly inflation and freight.

Unallocated Corporate Expense

Hershey's unallocated corporate expense in the third quarter of 2021 was $141.8 million, an increase of $13.5 million, or 10.5%, versus the same period of 2020. This increase was driven by higher capability and technology investments, both project and people costs, against lower 2020 levels due to COVID-19, along with elevated benefit costs and inflation, including higher medical claims.

Live Webcast

At approximately 7 a.m. (Eastern time) today, Hershey will post a pre-recorded management discussion of its third-quarter 2021 results and business update to its website at 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.