

# Hershey Reports Second-Quarter 2022 Financial Results; Raises 2022 Net Sales and Earnings Outlook

HERSHEY, Pa., July 28, 2022 /PRNewswire/ -- The Hershey Company (NYSE: HSY) today announced net sales and earnings for the second quarter ended July 3, 2022, and raised its full-year financial outlook.



"Our business momentum continued in the second quarter, with double-digit sales growth in each of our segments resulting in strong earnings per share performance," said Michele Buck, The Hershey Company President and Chief Executive Officer. "These results reflect the strength and resilience of our categories, consumers' love for our brands, the investments we are making in our business, and the exceptional execution of our dedicated employees. We are raising our financial expectations for the year and investing more heavily in our brands, capabilities and people in the second half to continue this momentum into 2023."

## Second-Quarter 2022 Financial Results Summary<sup>1</sup>

Consolidated net sales of \$2,372.6 million, an increase of 19.3%.

Organic, constant currency net sales increased 14.1%.

The impact of acquisitions on net sales was a 5.3-point benefit<sup>2</sup> while foreign currency exchange was a 0.1-point headwind.

Reported net income of \$315.6 million and \$1.53 earnings per share-diluted, an increase of 5.5%.

Adjusted earnings per share-diluted of \$1.80, an increase of 22.4%.

<sup>1</sup>

*All comparisons for the second quarter of 2022 are with respect to the second quarter ended July 4, 2021*

<sup>2</sup>

*Reflects the impact from the 2021 acquisitions of Pretzels Inc. (Pretzels), Dot's Pretzels, LLC (Dot's) and Lily's Sweets, LLC (Lily's)*

## 2022 Full-Year Financial Outlook

The Hershey Company is increasing its net sales outlook to reflect continued strength in consumer demand and net price realization. Price elasticities are expected to moderate from the second quarter, but remain favorable to historical levels, as inflation and fewer government benefits are expected to weaken consumers' buying power.

Profit from increased sales growth is expected to more than offset higher supply chain costs, elevated advertising and merchandising levels and increased incentive compensation costs, to deliver higher reported and adjusted earnings per share growth.

To reflect this strength in performance and expectations for the second half of the year, the company is raising its full-year financial outlook to the following:

2022 Full-Year Outlook	Prior Guidance
Net sales growth <sup>3</sup>	10% - 12%
Reported earnings per share growth	8% - 11%
Adjusted earnings per share growth	10% - 12%

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The impact of the Pretzels, Dot's and Lily's acquisitions is anticipated to be a 4- to 5-point benefit to net sales growth for the full-year 2022.

Below is a reconciliation of projected 2022 and full-year 2021 earnings per share-diluted calculated in accordance with U.S. generally accepted accounting principles (GAAP) to non-GAAP adjusted earnings per share-diluted:

	2022 (Projected)	2021
Reported EPS – Diluted	\$7.78 – \$7.99	\$7.11
Derivative mark-to-market gains	—	(0.12)
Business realignment activities	0.02 – 0.04	0.09
Acquisition-related activities	0.21 – 0.25	0.16
Noncontrolling interest share of business realignment and impairment charges	—	0.03
Other miscellaneous losses (benefits)	0.07	(0.07)
Tax effect of all adjustments reflected above	(0.09)	(0.01)
Adjusted EPS – Diluted	\$8.05 - \$8.20	\$7.19

2022 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.

## Second-Quarter 2022 Results

Consolidated net sales increased 19.3% to \$2,372.6 million in the second quarter of 2022, including a 5.3-point benefit from the acquisitions of Pretzels, Dot's and Lily's, while foreign currency exchange was a 0.1-point headwind. Organic, constant currency net sales increased 14.1% driven by pricing and volume gains across segments. Net price realization contributed 9.5 points to net sales growth driven by list price increases as well as moderately lower levels of promotional activity. Volume contributed to an additional 4.6-point benefit driven by the replenishment of distributor inventory levels, primarily in the North America Confectionery segment, along with favorable price elasticities in the North America Salty Snacks and International segments.

Reported gross margin was 42.1% in the second quarter of 2022, compared to 46.5% in the second quarter of 2021, a decrease of 440 basis points. This decrease was primarily driven by derivative mark-to-market losses, combined with higher supply chain costs and unfavorable mix, which was partially offset by sales growth. Adjusted gross margin was 43.9% in the second quarter of 2022, a decrease of 250 basis points. Higher raw material, packaging and logistics cost inflation, as well as labor investments, contributed to this decline, in addition to unfavorable mix from recent acquisitions. These headwinds were partially offset by accelerating net price realization and volume gains.

Selling, marketing and administrative expenses increased 16.2% in the second quarter of 2022 versus the second quarter of 2021, primarily driven by higher amortization, integration and operating expenses related to recent acquisitions. Advertising and related consumer marketing expenses increased 3.2% in the second quarter of 2022 versus the same period last year. Moderate advertising increases across brands and segments without capacity constraints were largely offset by cost efficiencies related to new media partners, primarily benefiting the North America Confectionery segment. Selling, marketing and administrative expenses, excluding advertising and related consumer marketing, increased 22.4% versus the second quarter of 2021. This increase was driven by a loss related to the sale of non-operating assets; higher acquisition-related costs; incremental capabilities and technology investments, including the upgrade of the company's enterprise resource planning (ERP) system, as well as related amortization; and salary and benefit inflation.

Second-quarter 2022 reported operating profit was \$456.5 million, in line with prior year, resulting in an operating profit margin of 19.2%, a decrease of 380 basis points. Adjusted operating profit of \$526.9 million increased 14.7% versus the second quarter of 2021, resulting in adjusted operating profit margin of 22.2%, a decrease of 90 basis points. Profit increases in adjusted operating profit were driven by pricing and volume gains, partially offset by broad-based inflation, acquisition-related costs, and higher advertising, capability and technology investments. Reported operating profit was similarly affected but was further offset by a loss related to the sale of non-operating assets, derivative mark-to-market losses, and higher integration costs related to recent acquisitions. The aforementioned costs outpaced sales growth resulting in a degradation of reported and adjusted operating margin in the second quarter.

The reported effective tax rate in the second quarter of 2022 was 21.8%, a decrease of 620 basis points versus the second quarter of 2021. The adjusted effective tax rate in the second quarter of 2022 was 21.4%, a decrease of 600 basis points versus the second quarter of 2021. Both the reported and adjusted effective tax rate decreases were driven primarily by higher international tax reserves accrued in the prior year period, as well as the timing of renewable energy tax credits.

The company's second-quarter 2022 results, as prepared in accordance with GAAP, included items positively impacting comparability of \$70.4 million, or \$0.27 per share-diluted. For the second quarter of 2021, items positively impacting comparability totaled \$2.8 million, or \$0.02 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	
	July 3, 2022	July 4, 2021
Derivative mark-to-market losses (gains)	\$ 40.8	\$
Business realignment activities	0.7	
Acquisition-related activities	15.3	
Other miscellaneous losses (benefits)	13.6	
Tax effect of all adjustments reflected above	—	
	<u>\$ 70.4</u>	<u>\$</u>

Segment performance for the second quarter of 2022 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 Confectionery

Hershey's North America Confectionery segment net sales were \$1,909.1 million in the second quarter of 2022, an increase of 12.9% versus the same period last year. Excluding the 0.8-point benefit from the acquisition of Lily's and a 0.3-point headwind from foreign currency exchange, organic, constant currency net sales increased 12.4%. Net price realization was a 9.8-point benefit driven by list price increases as well as a lower level of promotional activity in response to capacity constraints. Volume drove an additional 2.6-point benefit driven by the replenishment of distributor inventory levels, which contributed approximately 6.0 points to net sales growth and was partially offset by price elasticities.

Hershey's U.S. candy, mint and gum (CMG) retail takeaway for the 12-week period ended July 17, 2022 in the multi-outlet plus convenience store channels (MULO+C) increased 5.0%. Consumer demand and unit velocities remained steady with strength in take-home chocolate and sweets, while growth in unit pricing drove year-over-year gains. Hershey's take-home chocolate increased 6.6% in the latest period as at-home consumption remained strong and above pre-pandemic levels. Momentum of Hershey's sweets brands continued with retail takeaway of 7.7%, driven by *Jolly Rancher* Gummies and *Twizzlers* summer programming. Hershey's CMG share declined 54 basis points as production and on-shelf availability of certain products remained constrained and promotional levels were reduced to enable inventory replenishment. Declines were in line with expectations and an improvement from the first quarter as on-shelf availability increased. Hershey's confectionery share remains 83 basis points higher than pre-pandemic levels.

The North America Confectionery segment reported segment income of \$618.9 million in the second quarter of 2022, reflecting an increase of 11.6% versus the prior-year period. The increase in segment income was driven by pricing and volume gains, which were partially offset by higher supply chain costs, increased acquisition costs related to Lily's, higher capability and technology investments and increased trade show and travel expenses as the prior-year period was impacted by pandemic-related restrictions. The aforementioned costs outpaced sales growth in the second quarter, resulting in segment margin of 32.4%, a decrease of 40 basis points.

### North America Salty Snacks

Hershey's North America Salty Snacks segment net sales were \$256.3 million in the second quarter of 2022, an increase of 99.9% versus the same period last year. Sales from the acquisitions of Dot's and Pretzels was a 71.6-point benefit. Net price realization was a 14.6-point benefit, while volume contributed 13.7 points driven by strong consumer demand and favorable price elasticities.

Hershey's U.S. salty snack retail takeaway, including Dot's, in MULO+C increased 26.3% in the 12-week period ended July 17, 2022, driven by pricing and strong consumer demand across Hershey's salty snack brands. *SkinnyPop* brand retail sales increased 16.9% versus the prior-year period and resulted in a ready-to-eat popcorn share gain of approximately 130 basis points. *Pirate's Booty* brand continues to report strong takeaway with retail sales growth of 32.4%. Both *SkinnyPop* and *Pirate's Booty* brands reported double-digit growth across all classes of trade and nearly all pack-types in the period with exceptional strength in multi-packs, which increased 30.4%. This growth is driven by consumers' demand for convenience and on-the-go snacking along with the company's assortment strategy. *Dot's Homestyle Pretzels* brand also had tremendous retail sales growth of 45.4% during the period driven by continued strong distribution gains, resulting in a pretzel category share gain of approximately 340 basis points.

North America Salty Snacks segment income increased 43.7% to \$37.4 million in the second quarter of 2022, compared to \$26.0 million in the second quarter of 2021. Pricing gains and higher volumes offset unfavorable mix, acquisition-related costs and higher supply chain costs due to inflation and higher-than-expected demand, to drive segment income growth in the second quarter. The aforementioned costs outpaced sales growth in the second quarter, resulting in segment margin of 14.6%, a decrease of 570 basis points.

### **International**

Second-quarter 2022 net sales for Hershey's International segment increased 21.3% versus the same period last year to \$207.2 million. Excluding a 0.7-point benefit from foreign currency exchange rates, constant currency net sales increased 20.6%. Volume gains contributed 17.6 points to net sales growth, driven by the strong consumer buying power and demand across markets. Price realization was a 3.0-point benefit.

The International segment reported a \$30.7 million profit in the second quarter of 2022, reflecting an increase of \$3.1 million versus the prior-year period. The profit increase was driven by volume gains and net price realization, which were partially offset by higher supply chain cost inflation and logistics costs, as well as increased advertising investment, salary and benefit inflation and increased travel expenses. The aforementioned costs outpaced sales growth in the second quarter, resulting in segment margin of 14.8%, a decrease of 130 basis points.

### **Unallocated Corporate Expense**

Hershey's unallocated corporate expense in the second quarter of 2022 was \$160.1 million, an increase of \$11.5 million, or 7.7%, versus the same period of 2021. This increase was driven by higher amortization; integration and operating expenses related to recent acquisitions; incremental capabilities and technology investments, including the upgrade of the company's ERP system, as well as related amortization; and salary and benefit inflation.

### **Dividend Increase**

The Board of Directors of The Hershey Company declared a quarterly dividend of \$1.036 on the Common Stock and \$0.942 on the Class B Common Stock, payable September 15, 2022, to shareholders of record as of August 19, 2022, representing an increase of 15%, or \$0.135 and \$0.123 per share, respectively. It is the 371<sup>st</sup> consecutive regular dividend on the Common Stock and the 152<sup>nd</sup> consecutive regular dividend on the Class B Common Stock.

### **Live Webcast**

At approximately 7 a.m. (Eastern time) today, Hershey will post a pre-recorded management discussion of its second-quarter 2022 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](#).