

## The Hershey Company

## Margins drive 4Q upside; Cocoa colors '24 guide

Maintain Rating: NEUTRAL | PO: 195.00 USD | Price: 194.26 USD

## 4Q23 adjusted EPS \$2.02 vs. BofA \$1.97 estimate

HSY reported 4Q23 results with an adjusted EPS of \$2.02 that beat our estimate of \$1.97 and Visible Alpha consensus of \$1.96. Upside to margins drove the beat, while lower sales partially offset. In addition, HSY announced its initial FY24 EPS outlook. HSY launched its Advancing Agility & Automation (AAA) initiative, which is expected to generate net run-rate pre-tax savings of ~\$300mm by 2026, 70% of which will come from SG&A, 30% from COGS. FY24 savings is expected to be \$100mm & have ~\$90mm coming from SG&A and build over course of the year. Total three-year costs are expected to be \$200-250mm with \$110mm realized in FY24 and will be incremental to its existing \$400mm supply chain productivity initiative. Maintain Neutral & \$195 PO.

## Key takeaways from press release

1) Reported net sales of \$2.657bn were below our estimate of \$2.734bn with organic sales of -0.2% vs our estimate of +3.2%. Both volume/mix and price came in lower than our estimate. Volumes were down -6.7% vs our -4.3% largely driven by a meaningful miss in Salty volumes (-26.1% vs BofAe -12.5%). ~16pts from the volume decline was related to inventory declines related to ERP. The segment also saw category softness within the ready to eat popcorn category. Price was +6.5% vs our +7.5%. 3) Adj. gross margins of 44.2% beat our forecast of 42.6%. 4) Operating income of \$544.2mm was \$9.4m above our estimate of \$534.8mm. Advertising and marketing expense increased by +5.8% YoY in the quarter driven by higher investment in the US. 5) Below the line, an unfavorable tax rate (-3.8% vs. our estimate of -2%) and higher other expense offset the beat while interest expense came in lower than modeled.

## Segment takeaways

By segment, North America Confectionery organic sales increased by +2.1% driven by +7.2% price and offset by -5.1% volume/mix. North America Salty Snacks organic sales decreased by -24.6% driven by +1.5% price and -26.1% volume/mix. International organic sales increased by +8.3% driven by +2.3% volume/mix and +6% price. 2) Total HSY CMG takeaway increased +3.6% but declined ~38bps in market share due to declines in everyday chocolate and sweets share. Salty snacks takeaway was down -7% resulting in an -135bps share decline in popcorn and +44bps gain in pretzels.

## FY24 outlook introduced: flat adj. EPS growth

HSY introduced its FY24 outlook which includes: 1) Net sales growth of +2-3% which compares to consensus of +3.1% and current BofAe of +2.6%. 2) Full year GM contraction of ~200bps, (BofA currently modeling down -90bps, consensus up +10bps) and gross profit dollars to decline low-single digits. HSY is covered for the year on cocoa costs. 3) Flat adj. EPS growth, or \$9.59 vs consensus of \$9.77 and BofAe of \$9.50. Other key updates: 1) adj. tax rate of 13%, 2) other expense of \$220-230mm, 3) interest expense of ~\$165-175mm, 4) CAPEX of \$600-650mm, 5) \$100mm of cost savings realized in 2024 and \$110mm of pre-tax charges in year 1 related to these efforts.

08 February 2024

## Equity

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## Stock Data

Price	194.26 USD
Price Objective	195.00 USD
Date Established	22-Jan-2024
Investment Opinion	A-2-7
52-Week Range	178.82 USD - 276.88 USD
Mrkt Val (mn) / Shares Out (mn)	39,927 USD / 205.5
Free Float	92.0%
Average Daily Value (mn)	302.73 USD
BofA Ticker / Exchange	HSY / NYS
Bloomberg / Reuters	HSY US / HSY.N
ROE (2023E)	52.8%
Net Dbt to Eqty (Dec-2022A)	131.2%
ESGMeter™	High

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Refer to important disclosures on page 4 to 6. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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# Variance table

## Exhibit 1: HSY variance table

4Q23 adj. EPS of \$2.02 beat \$1.97

Hershey 4Q23							Source of EPS Upside	
	4Q23A	4Q23E	A vs. E	Per Share	4Q22A	% Chg		
<b>Income Statement</b>							Sales	(\$0.38)
<b>Net Sales</b>	<b>\$2,657.1</b>	<b>\$2,733.8</b>	<b>(\$76.7)</b>	<b>(\$0.38)</b>	<b>\$2,652.3</b>	<b>0.2%</b>	COGS	\$0.43
Cost Of Goods Sold	\$1,482.5	\$1,569.2	(\$86.7)	\$0.43	\$1,492.3	-0.7%	Gross Profit	\$0.05
<b>Gross Profit</b>	<b>\$1,174.6</b>	<b>\$1,164.6</b>	<b>\$10.0</b>	<b>\$0.05</b>	<b>\$1,160.1</b>	<b>1.3%</b>	SM&A	(\$0.00)
Gross Margin	44.2%	42.6%	161bps		43.7%		Operating Profit	\$0.05
SM&A	\$630.4	\$629.8	\$0.6	(\$0.00)	\$604.7	4.2%	Interest Expense	\$0.02
SM&A % of Sales	23.7%	23.0%	69bps		22.8%		Other Expense	(\$0.05)
<b>Operating Profit</b>	<b>\$544.2</b>	<b>\$534.8</b>	<b>\$9.4</b>	<b>\$0.05</b>	<b>\$555.3</b>	<b>-2.0%</b>	Tax Rate	\$0.03
Operating Margin	20.5%	19.6%	92bps		20.9%		Share Count	(\$0.00)
Net Interest Expense	\$37.7	\$41.2	(\$3.5)	\$0.02	\$35.6	5.9%	Above the Line	\$0.05
Other Expense (Income), net	\$107.0	\$97.3	\$9.7	(\$0.05)	\$127.9		Below the Line	\$0.00
Income Before Taxes	\$399.6	\$396.3	\$3.3	\$0.02	\$391.8	2.0%	<b>Total</b>	<b>\$0.05</b>
Income Taxes	(\$15.1)	(\$7.9)	(\$7.2)	\$0.03	(\$25.3)	-40.2%	* Does not equal due to rounding	
Effective Tax Rate	(3.8%)	(2.0%)	-178bps		-6.5%			
Net Income Exc. Extras	\$414.7	\$404.2	\$10.5		\$417.1	-0.6%		
<b>EPS Pro Forma</b>	<b>\$2.02</b>	<b>\$1.97</b>	<b>\$0.05</b>		<b>\$2.02</b>	<b>-0.1%</b>		
Shares Outstanding	205.4	205.1	0.3	(\$0.00)	206.3	-0.5%		
<b>Segments</b>								
<b>Sales</b>								
North America Confectionery	\$2,220.2	\$2,268.3	(\$48.1)		\$2,165.4	2.5%		
North America Salty Snacks	\$205.2	\$239.3	(\$34.2)		\$272.0	-24.6%		
International	\$231.7	\$226.2	\$5.6		\$254.5	-9.0%		
Total Sales	\$2,657.1	\$2,733.8	(\$76.7)		\$2,652.3	0.2%		
<b>Operating Profit</b>								
North America Confectionery	\$724.6	\$719.1	\$5.6		\$631.7	14.7%		
North America Salty Snacks	\$10.4	\$43.1	(\$32.7)		\$56.7	-81.7%		
International	\$20.4	(\$0.5)	\$20.9		\$12.1	68.9%		
Corporate Expense	(\$211.3)	(\$226.9)	\$15.7		(\$176.3)	19.8%		
Total Operating Profit	\$544.2	\$534.8	\$9.4		\$467.5	16.4%		
<b>Organic Sales</b>								
Volume/mix	-6.7%	-4.3%	-235bps		2.3%	-894bps		
Price	6.5%	7.5%	-100bps		8.4%	-193bps		
<b>Organic</b>	<b>-0.2%</b>	<b>3.2%</b>	<b>-335bps</b>		<b>10.7%</b>	<b>-1087bps</b>		
Currency	0.3%	-0.1%	47bps		-0.3%	62bps		
Other	0.0%	0.0%	bps		3.6%	-360bps		
Total Sales	\$2,657.1	\$2,733.8	(\$76.7)		\$2,652.3	0.2%		
<b>% chg</b>	<b>0.2%</b>	<b>3.1%</b>	<b>-289bps</b>		<b>14.0%</b>	<b>-1384bps</b>		

Source: HSY, BofA Global Research estimates

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## Price objective basis & risk

### The Hershey Company (HSY)

Our \$195 price objective is based on an unchanged 19x our CY25 EPS estimate. This is justified, in our view, as HSY has a range of dynamics coming into play in FY24 including potential for gross margin pressure and some topline weakness driven by timing and increased demand elasticity, offset by its innovation pipeline coming on-line and low



private label exposure compared to its peer set..

Upside risks to our PO are 1) innovation pipeline to drive market share gains in a low private label exposure environment, 2) faster moderation of inflation, particularly in cocoa/sugar 3) elasticities coming in better than expected.

Downside risks to our PO are 1) elevated inflation taking longer than expected to taper off, particularly if cocoa/sugar prices are sticky, 2) competitors taking market share from HSY, 3) negative surprises on packaging, logistics, or special ingredient costs that aren't traditionally hedged by HSY, 4) weaker volume lift from innovation pipeline.

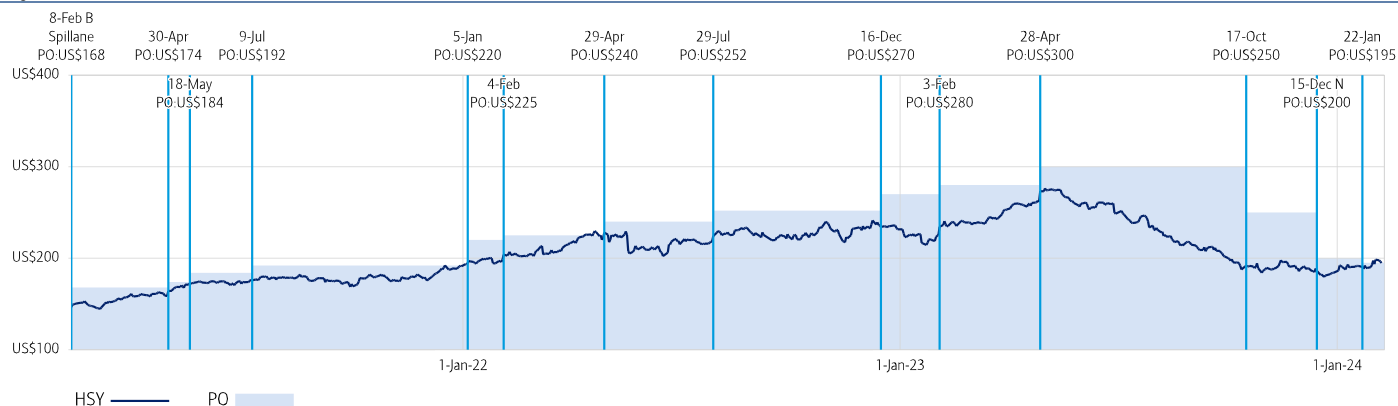
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HSY — PO ■  
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

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Sell	807	22.84%	Sell	383	47.46%

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