



## FINANCIAL ANALYSIS & VALUATION



## Project

ANALYST

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The Hershey Company is a leading American company specializing in the manufacture and marketing of **chocolate & confectionery products** worldwide.

NYSE Ticker: **HSY**    Founded: **1894**    Employees: **17,805**    Countries: **60+**

## Revenue Streams

Manufacturing

Distribution

Marketing

Licensing

HSY's Revenue    \$8.97B

**93.6%** ~ Chocolate Based Products & Confectionaries    **6.4%** ~ Snacks

US Market

**43.3%** ~ HSY Market Share of US Confectionary & Sweets Market (2022)

## Resources

The most valuable resources of HSY includes its *trademarks* and other *intellectual property*, *raw materials*, *supply chain*, *manufacturing/distribution facilities*, *IT & communications infrastructure*, *sales and advertising channels*, *partnerships*, and *employees*. The majority of the intangible assets that Hershey possesses are trademarks and patents, including those that are connected to some of its well-known brands. Much of these brands' parent companies (~16) were acquired by HSY and are now crucial to the company's operations.

## Partners

Hershey is constantly updating its network of partners. These partners include:

### Supplier and Vendors

- raw ingredients
  - materials
  - equipment
- for manufacturing and packaging processes.

### Channel & Distribution

- distributors
  - 3rd party carriers
  - logistic providers
- that assist in delivering products worldwide.

### Licensing Partners

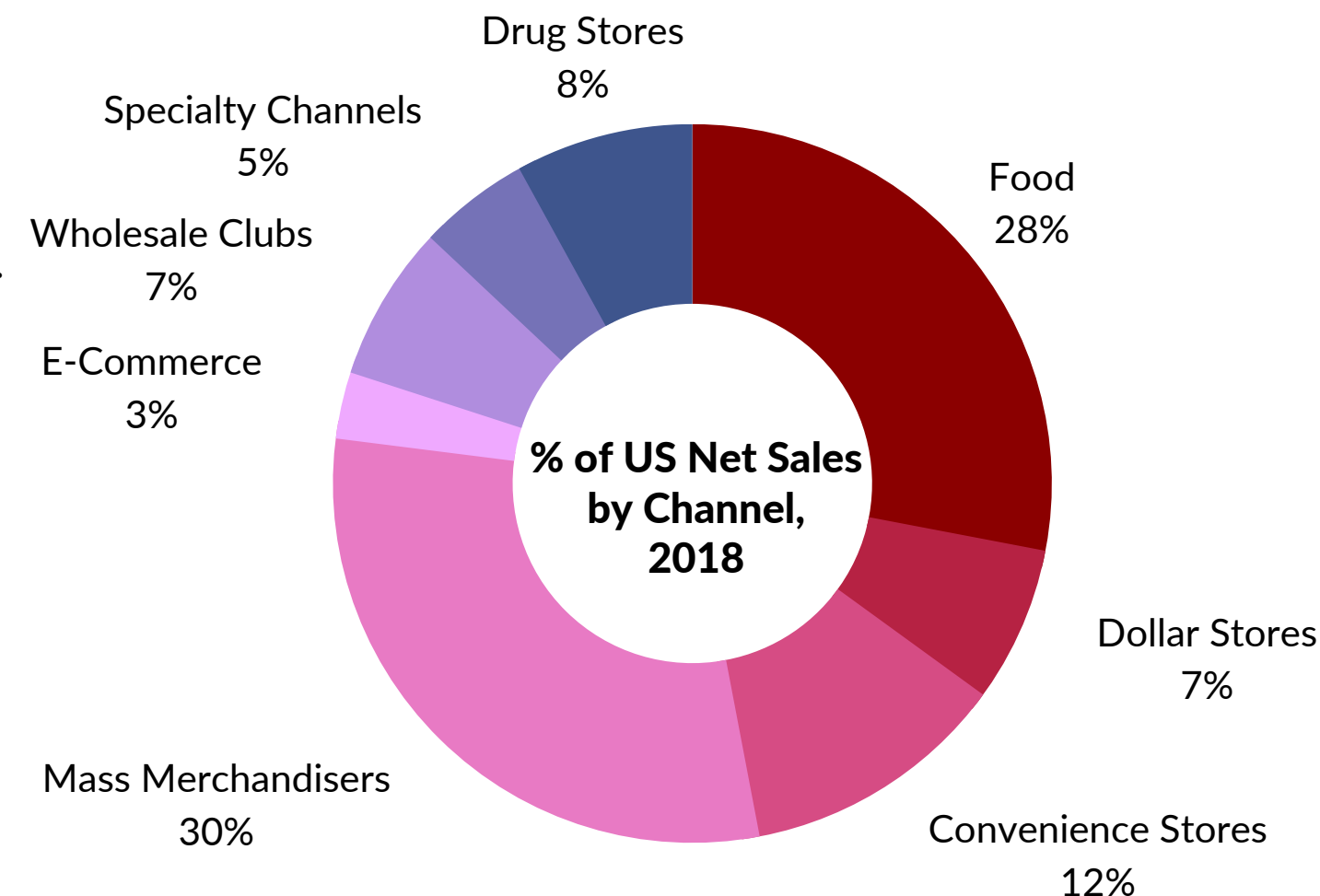
International confectionery producers that license brands & products for manufacture and sale.

### Joint Venture Partners

Manufacturers & Distributors that produce/market in collaboration with HSY by mutually owned entities.

### Strategic & Alliance

Range of close relationship companies across multiple sectors with which HSY collaborates on joint projects.



## Segments

The company does sell products directly to consumers online and in physical stores, and principally reaches the general consumer market indirectly via:

- **Distributors**, comprising *confectionery wholesalers* and *consumer food product distributors*.
- **Retailers**, comprising chain *grocery stores*, *supermarket chains*, *mass merchandisers*, chain *drug stores*, *vending companies*, *wholesale clubs*, *convenience stores*, *dollar stores*, *concessionaires*, and *department stores*.

Hershey divides its operations into 2 business segments:

- **North America**: includes US and Canada.
- **International & Other**: includes other countries across Asia Pacific, Latin America, and EMEA.



# Competitors



Leading Market Share



Innovating for Snacking Trend



High Profile Brands Portfolio

## Competitive Advantages



Profitability Ranks Well Above Peers



Long History of Profit Growth



Superior Distribution Network & Marketing

## Corporate Governance & Management Quality

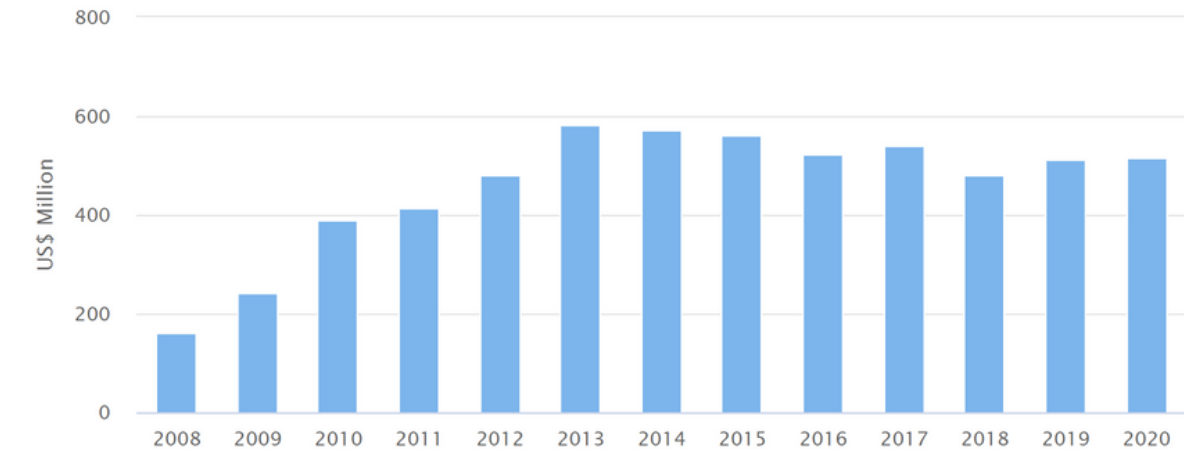
The quality of the company's management is illustrated by strategies implemented by Hershey's aimed at better meeting the needs of consumers. Hershey's has launched a program based on Better-for-you candy (BFY) to meet the growing demand from consumers. To implement this strategy, Hershey's relies on important levers of its management activity such as core brand innovation, partnerships & licensing, research & development, and mergers & acquisitions. Company Focuses on Sugar Reduction Goal for BFY Confectionery as Over 70% of Consumers Seek to Reduce Sugar Consumption.

The company continues its race for well-being through numerous collaborations and partnerships with well-known BFY brands to co-develop new offerings, such as Honest Beverages. The main objective of these strategies is to study how consumers react to these propositions since it is one of the first companies to provide interesting alternatives in such a sector. This implies that the management quality is good and working towards the goals to meet the consumer demand.

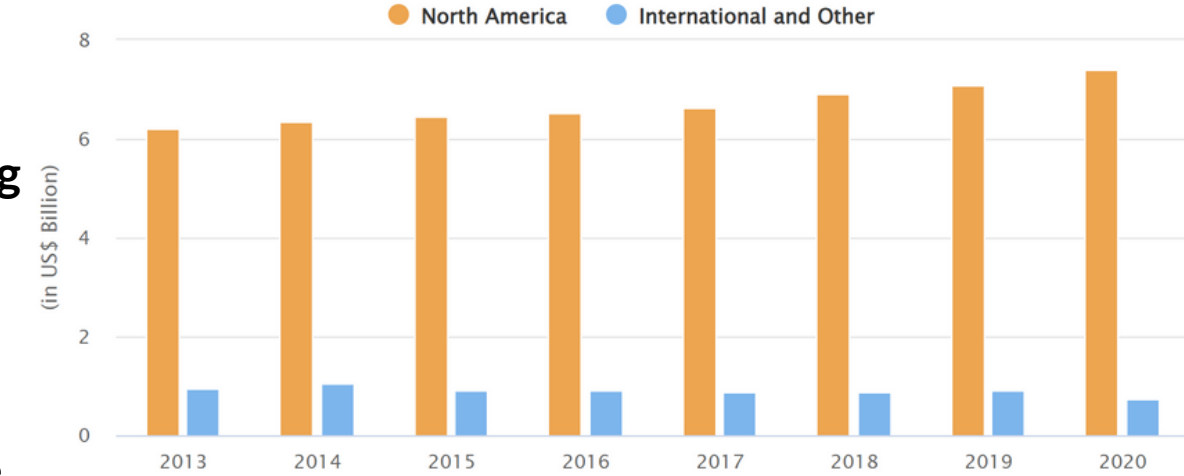
## Lineup



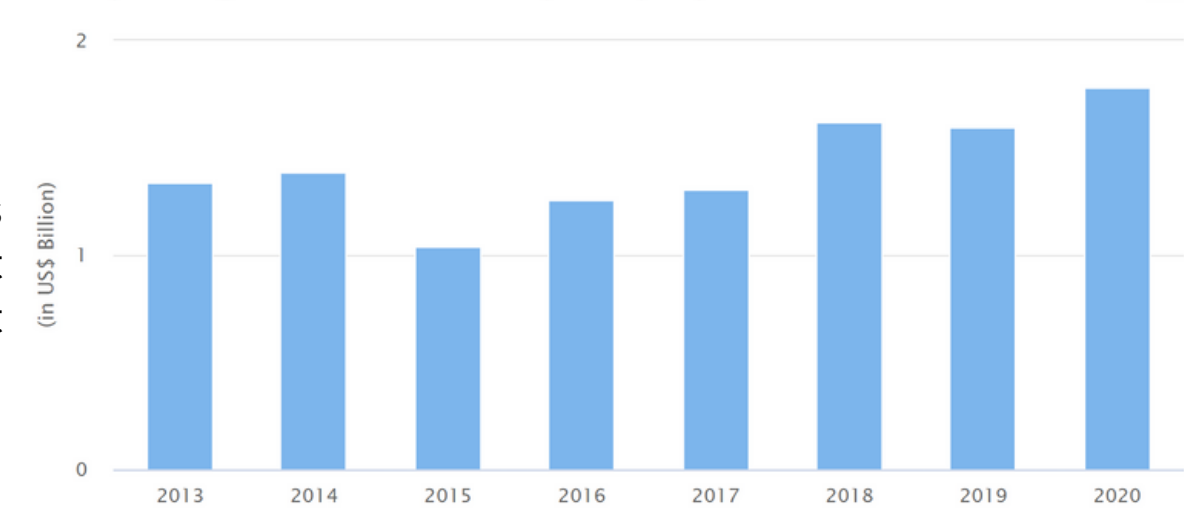
Advertising Expenditures of the Hershey Company Worldwide from 2008 to 2020 (in US\$ Million)



Global Net Sales of the Hershey Company 2006–2020, by Region (in US\$ Billion)



Operating Profit of the Hershey Company 2006–2020 (in US\$ Billion)



# Discounted Cash Flow Valuation (DCF):

## Future Free Cash Flows to the Firm (FCFF)

We performed the forecast for the next 5 Years (2022 – 2026) using the past 5 years' historical data (2017 – 2021). All the assumptions used are stated out on the next slide. All the currency data figures given are in Thousands of \$'s (000's) unless stated otherwise.

*Unlevered FCFF = Net Operating Profit After Tax (NOPAT) + Depreciation & Amortization (D&A) - Change in Net Working Capital (NWC) - Capital Expenditure (CAPEX)*

Forecast Year	2022	2023	2024	2025	2026	
NOPAT	1,358,509	1,420,665	1,485,665	1,553,639	1,624,723	
D&A	336,807	352,217	368,332	385,184	402,808	
Change in NWC	75,873	47,744	49,928	52,213	54,602	
CAPEX	(565,300)	(644,442)	(734,664)	(837,516)	(954,769)	
Unlevered FCFF	2,184,742	2,369,579	2,538,732	2,724,127	2,927,698	
					53,315,599	Terminal Value

**Terminal Value** of the company is value of the company beyond forecasted time period. For **Terminal Value**, the **EV/EBITDA multiple method** was used. Historical EV/EBITDA ratio was used to get the **Exit Multiple** of **22.0x** and then it was multiplied with the Terminal Years EBITDA (2026E).

In historical data, the COVID pandemic period was not excluded because HSY showed very minimal anomalies in revenue and growth during it. In fact, it found growth during the pandemic.



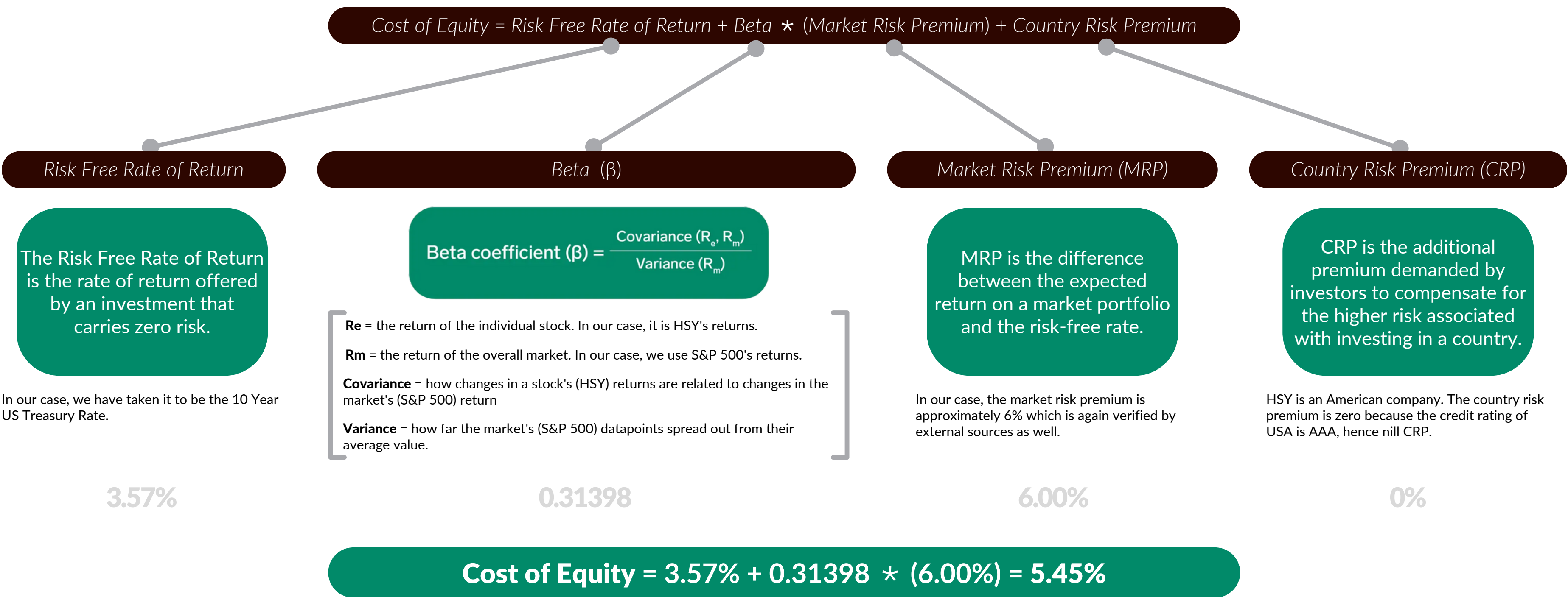
# Discounted Cash Flow Valuation (DCF):

## Assumptions

Sales Growth (Avg. % Change, YoY)	4.6	Assuming the growth rate to be 4.6% based on the average of the prior years' (historical data) yearly net sales growth rate.
Cost of Sales (% of Sales)	54.4	Correlation exists between average cost of sales and net sales.
Selling, General & Administrative (% of Sales)	23.7	Correlation exists between average cost of selling, general & administrative and net sales.
Depreciation & Amortization (% of Sales)	3.6	Correlation exists between the average depreciation and amortization and net sales by the company. D&A costs have also been apportioned to the cost of sales and selling, general & administrative.
Business Realignment Costs (% of Sales)	0.2	Correlation exists between the average business realignment cost and net sales by the company.
Interest (% of EBIT)	7.9	Correlation exists between the average interest expense and net earnings by the company.
Other Expense (% of EBIT)	6.1	Correlation exists between the average other expense and net earnings by the company.
Tax Rate (%)	19.6	Assuming tax rate to be the average of historical tax provisions made by the company to the of historical net earnings.
CAPEX Growth Rate (%)	14	Assuming CAPEX to grow by 14% annually (Compound Annual Growth Rate).
Accounts Receivable (Days)	27	Assuming accounts receivable days to be the average of historical accounts receivable days.
Accounts Payable (Days)	26	Assuming accounts payable days to be the average of historical accounts payable days.
Inventories (Days)	39	Assuming inventories days to be the average of historical inventories days.

# Discounted Cash Flow Valuation (DCF):

## Cost of Equity



# Discounted Cash Flow Valuation (DCF):

## Cost of Debt

The cost of debt is the return that a company provides to its debtholders and creditors. These capital providers need to be compensated for any risk exposure that comes with lending to a company.

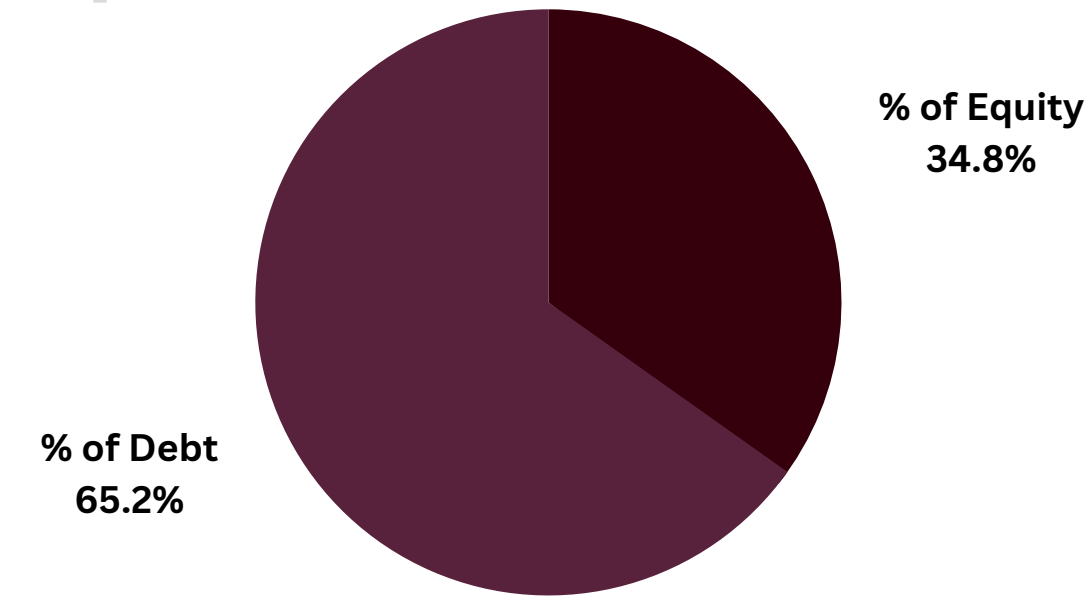
HSY has issued several long term notes/debentures with varying interest rates and values. We have based our Cost of Debt on the basis on this data in the table (extracted from HSY SEC Filings).

**Cost of Debt = \$112,530 / \$4,043,639 = 2.78%**

Long Term Debt Issued %	Type	Maturity Date	Value		Interest	
2.625%	Notes	May 1, 2023	\$	250,000	\$	6,563
3.375%	Notes	May 15, 2023	\$	500,000	\$	16,875
2.050%	Notes	November 15, 2024	\$	300,000	\$	6,150
0.900%	Notes	June 1, 2025	\$	300,000	\$	2,700
3.200%	Notes	August 21, 2025	\$	300,000	\$	9,600
2.300%	Notes	August 15, 2026	\$	500,000	\$	11,500
7.200%	Debentures	August 15, 2027	\$	193,639	\$	13,942
2.450%	Notes	November 15, 2029	\$	300,000	\$	7,350
1.700%	Notes	June 1, 2030	\$	350,000	\$	5,950
3.375%	Notes	August 15, 2046	\$	300,000	\$	10,125
3.125%	Notes	November 15, 2049	\$	400,000	\$	12,500
2.650%	Notes	June 1, 2050	\$	350,000	\$	9,275
Total			\$	4,043,639	\$	112,530

## Weighted Average Cost of Capital (WACC)

### Capital Structure



### WACC Calculation

$$WACC = \text{Weight of Equity} \times \text{Cost of Equity} + \text{Weight of Debt} \times \text{Cost of Debt} \times (1 - \text{Tax Rate})$$

**$$WACC = (34.82\% \times 5.45\%) + (65.18\% \times 2.78\%) \times (1 - 19.6\%) = 3.357\%$$**

*\*mix of debt and equity used to finance HSY's assets and operations. Weights are derived from HSY's Balance Sheet.*

# Discounted Cash Flow Valuation (DCF): Equity Value

*Equity Value = Enterprise Value + Cash & Equivalents - Debt*

The enterprise value (EV) of the business is calculated by discounting the unlevered free cash flows (UFCFs) projected over the projection period and the terminal value calculated at the end of the projection period to their present values using the chosen discount rate (WACC).

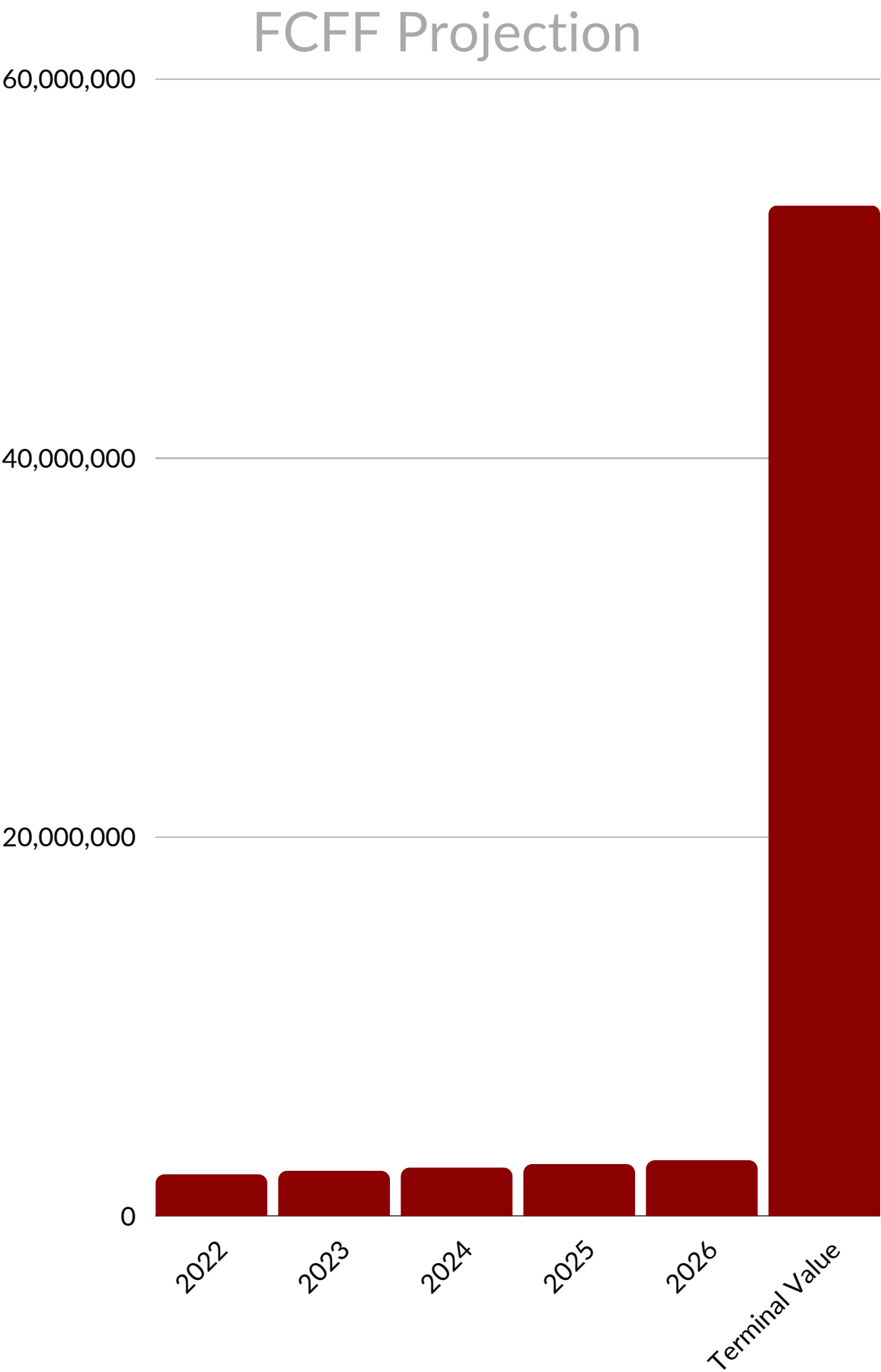
*Enterprise Value = NPV of FCFFs (incl. Terminal Value) = \$ 53.315 Billion*

**Equity Value = 56,700,995 + 329,266 - 7,655,002 = \$ 49.375 Billion**

*Share Price = Equity Value / No. of Shares Outstanding*

**Share Price = 49,375,259,000 / 207,758,000 = \$ 237.66**

Senstivity Analysis						
WACC		3.16%	3.26%	3.36%	3.46%	3.56%
Terminal Value's Exit Multiple	21	230.09	228.91	227.74	226.57	225.41
	21.5	235.08	233.88	232.68	231.49	230.31
	22	240.07	238.85	237.63	236.41	235.21
	22.5	245.07	243.82	242.57	241.33	240.10
	23	250.06	248.78	247.51	246.25	245.00





# Discounted Cash Flow Valuation (DCF): Equity Value

The current share price of HSY is observed to be slightly undervalued as per our Discounted Cash Flow (DCF) Analysis.

The difference shows an expected gain of \$2.66 per share.

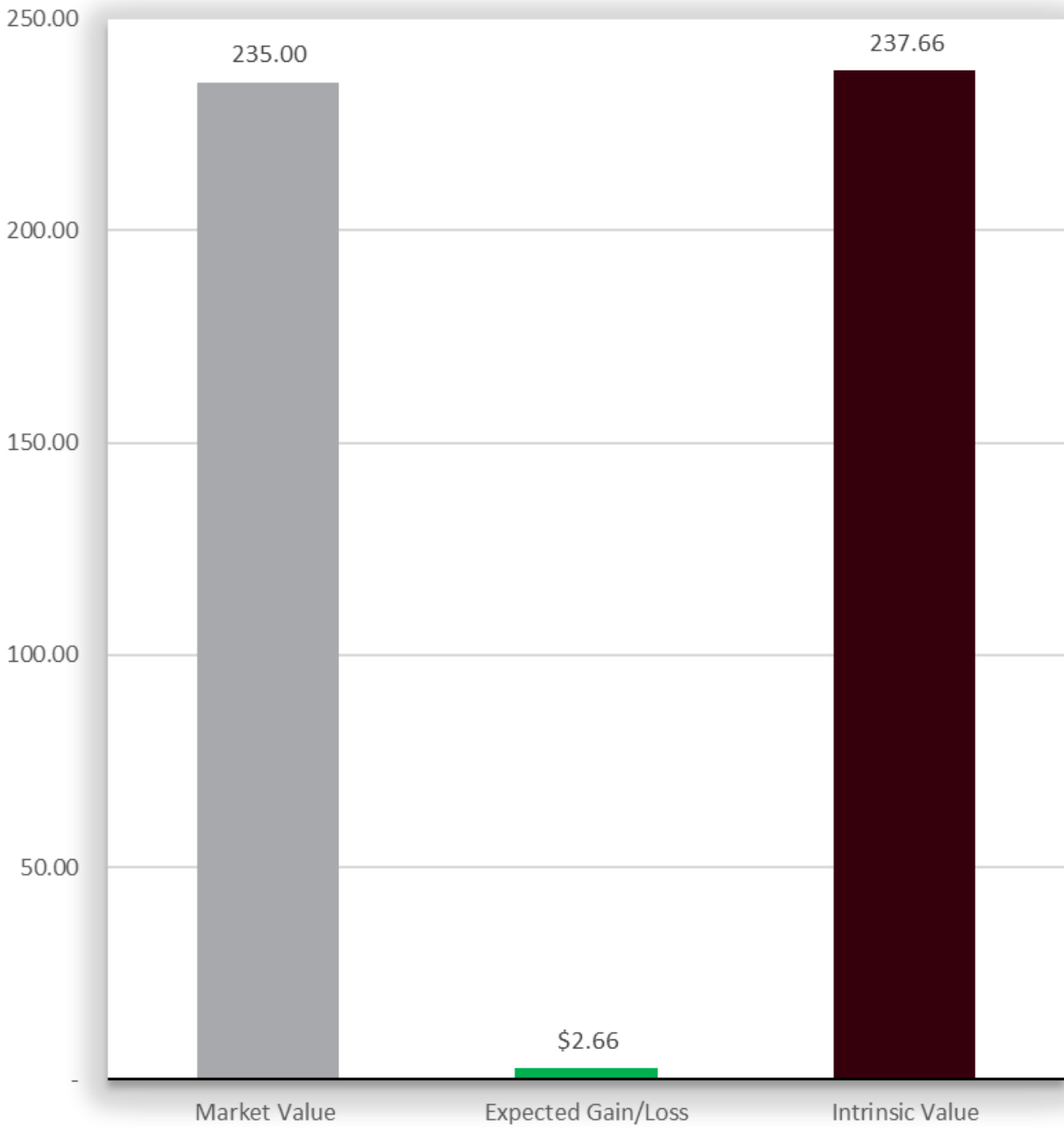
Additionally, as per the sensitivity analysis of the WACC against Exit Multiple, we see that share price ranges from \$225 - \$250. Our calculated value of \$237.66 shows that it is quite around the median.

Conclusively, the market share price is slightly undervalued from the intrinsic share price value.

Hence, the recommendation is to **BUY**.

BUY

DCF Analysis  
Market Value vs Intrinsic Value



WACC = 3.357%

ENTERPRISE VALUE  
**\$56.701 Billion**

EQUITY VALUE  
**\$45.375 Billion**

SHARES OUTSTANDING  
**207,758**

SHARE PRICE  
**\$237.66**

> \$235.00  
Current Market Price

# Multiples Valuation:

## Comparable Companies Analysis

Our set of comparable companies (peers) for The Hershey Company include the following:



NYSE Ticker: **MDLZ**

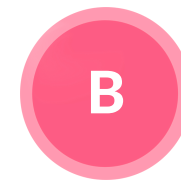
Founded: **1923**

Employees: **79,000**

Countries: **160+**

Market Cap: **\$90.66B**

Sector: **Consumer Defensive**



NYSE Ticker: **KHC**

Founded: **2015**

Employees: **38,757**

Countries: **199+**

Market Cap: **\$48.79B**

Sector: **Consumer Defensive**

The peer companies have been carefully chosen to include those involved in the same sector as HSY and have varying operational figures for a more holistic analysis.

Finwiz, other online stock screening databases, and other analysis webpages were carefully sifted in the comparables set selection.





# Multiples Valuation:

## Equity Value using Equity Multiples: P/E

The **Price-to-Earnings ratio**, often known as the **P/E ratio**, is a financial metric used to contrast the earnings per share of a company and current market share price of a company.

Since comparable companies have different fiscal year endings, and hence, different reporting periods, we had to carry out period adjustment before calculating the multiples. To align the data values, we have used the Trailing Twelve Month Values (LTM method).

		
Net Earnings	\$3,137 M	\$1,216 M
Diluted Shares	1,385.71 M	1,237.82 M
Earnings Per Share (EPS)	\$2.26	\$0.98
Current Stock Price	\$66.16	\$39.92
P/E Ratio	29.20	40.60

# Multiples Valuation:

## Equity Value using Equity Multiples: P/E (Analysis)

Intrinsic Value via P/E Ratio

Average P/E of Comparables = 34.90

Diluted EPS of HSY = \$ 6.72

**Implied Price of HSY Share =  $6.72 * 34.90 = \$234.77$**

< \$235.00

Current Market Price

**SELL**

We notice in this scenario that the variance between the P/E ratios is high which makes this implied price debatable and a bit unreliable.




# Multiples Valuation:

## Equity Value using Asset Multiples: EV/EBITDA

The **EV-to-EBITDA ratio** (Enterprise Value to Earnings Before Interest, Taxes, Depreciation & Amortization Ratio), is a popular metric used as a valuation tool to compare the value of a company, debt included, to the company's cash earnings excluding non-cash expenses.

Since comparable companies have different fiscal year endings, and hence, different reporting periods, we had to carry out period adjustment before calculating the multiples. To align the data values, we have used the Trailing Twelve Month Values (LTM method).

		
EBITDA	\$4,999 M	\$3,306 M
Total Debt	\$31,239 M	\$26,631 M
Equity Value	\$91,679 M	\$49,414 M
EV	\$120,770 M	\$75,206 M
EV/EBITDA Ratio	24.20	22.70

# Multiples Valuation:

## Equity Value using Asset Multiples: EV/EBIT (Analysis)

Intrinsic Value via EV/EBITDA Ratio

Average EV/EBITDA of Comparables = 23.45

Implied Enterprise Value of HSY =  $23.45 * 2,423,4236 = \$56,838 \text{ M}$

Implied Equity Value of HSY =  $56,838 \text{ M} + 329,266 - 7,655,002 = \$49,512 \text{ M}$

Implied Price of HSY Share =  $49,512 \text{ M} / 207,758 \text{ M} = \$238.32$

> \$235.00

Current Market Price

**BUY**



# Recommendation

After conducting an extensive analysis using both the discounted cash flow model (DCF Model) and the relative multiples valuation model, we have determined that The Hershey Company is **UNDERVALUED**.

According to our analysis using discounted cash flow model, the stock has been undervalued with a difference of \$2.66.

According to our analysis using relative multiples valuation model, it is implied that the stock price is undervalued by \$3.32 (using EV/EBITDA). However, using Equity side we find that the stock is overvalued by \$0.33 (using P/E). This we suppose is due to the high variance between the comparables P/E ratios. To improve the equity side valuation, we recommend to find further comparables and using different ratio as well.

In HSY's operating sector shows us the resistance and growth in COVID times and so a positive outlook is expected in the industry. Moreover, due to the largest market share, increased innovation, and relatively greater profitability margins, we foresee a positive outlook for HSY's stock.

Since our asset side multiple and DCF model draw us the same conclusion, we recommend to BUY the stock.



ASSET MULT. PRICE

**\$238.32**

EQUITY MULT. PRICE

**\$234.77**

DCF SHARE PRICE

**\$237.66**

\$235.00

Current Market Price

**BUY**

# References

- <https://www.forbes.com/sites/greatspeculations/2020/08/25/competitive-advantages-drive-sweet-growth-opportunities-for-the-hershey-company/?sh=4abc65c22d3f>
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