

The Hershey Co.

The Flattops



The Flattops



Team Captain
William Errett
BBA Finance & Economics



Enrique Alvarado
BBA Finance



Pablo Samanez
BBA Accounting



Hayden Martin
BA History

Company Overview

Hayden Martin



General Information

Company
Overview

- Ticker Symbol: HSY
- Headquarters: Hershey, PA
- Stock Price: \$187.92
- Market Cap \$38.53B
- # of Employees: 19,000
- 90+ Brands



What is Hershey's?

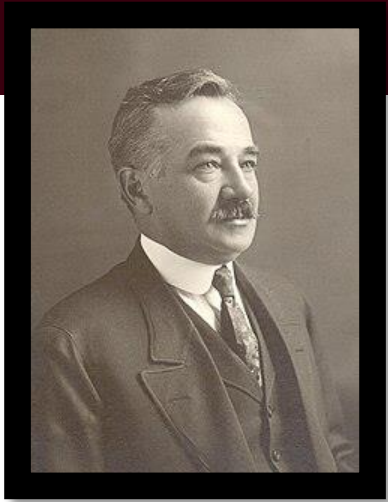


Company
Overview

Hershey's main product is chocolate with many different chocolates such as the many Hershey brands, Reese's, Whoppers as well as salty snacks like Skinny Pop, Pirates Booty and Dot's Pretzels.



History



Milton Hershey establishes Hershey's in 1897



1900 first bar is sold



Hershey's World opens 1973



Company Overview



Acquired Reese's in 1963



Acquires LEAF, Inc. 1993

Recent News



- On April 17, 2023, Hershey's announced their plan to Acquire Two Manufacturing Facilities from Weaver Popcorn Manufacturing
- Recently, In 2021 Hershey's acquired Lily's, Dot's Pretzels and paid \$1.2B
- It is estimated that 10% of Hershey's annual revenue comes from Halloween sales, they sold \$2.45 Billion of chocolate products in the 3rd quarter

52-Week Price Chart



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The Hershey Co.

Management & Capital Allocation

Hayden Martin



Management Team



CEO
Michelle Buck
Age: 59



CTO
Deepak Bhahtia



CFO
Steve Voskuil
Age: 51

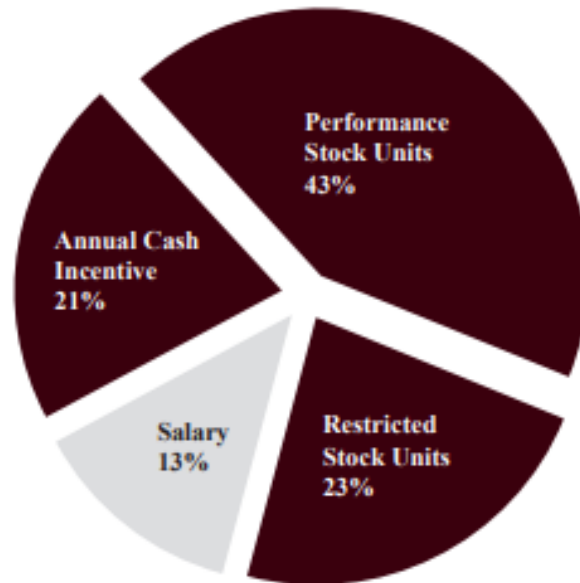


President Salty Snacks
Kirsten Riggs
Age: 44

Executive Compensation

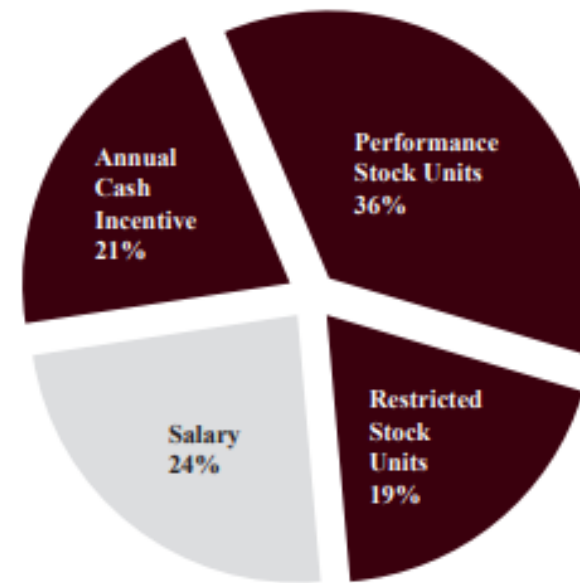


Target Total Direct Compensation - CEO



At-Risk Compensation = 87%

Average Target Total Direct Compensation - Other NEOs



At-Risk Compensation = 76%

Executive Compensation



21% of the compensation come from short term annual cash benefits.

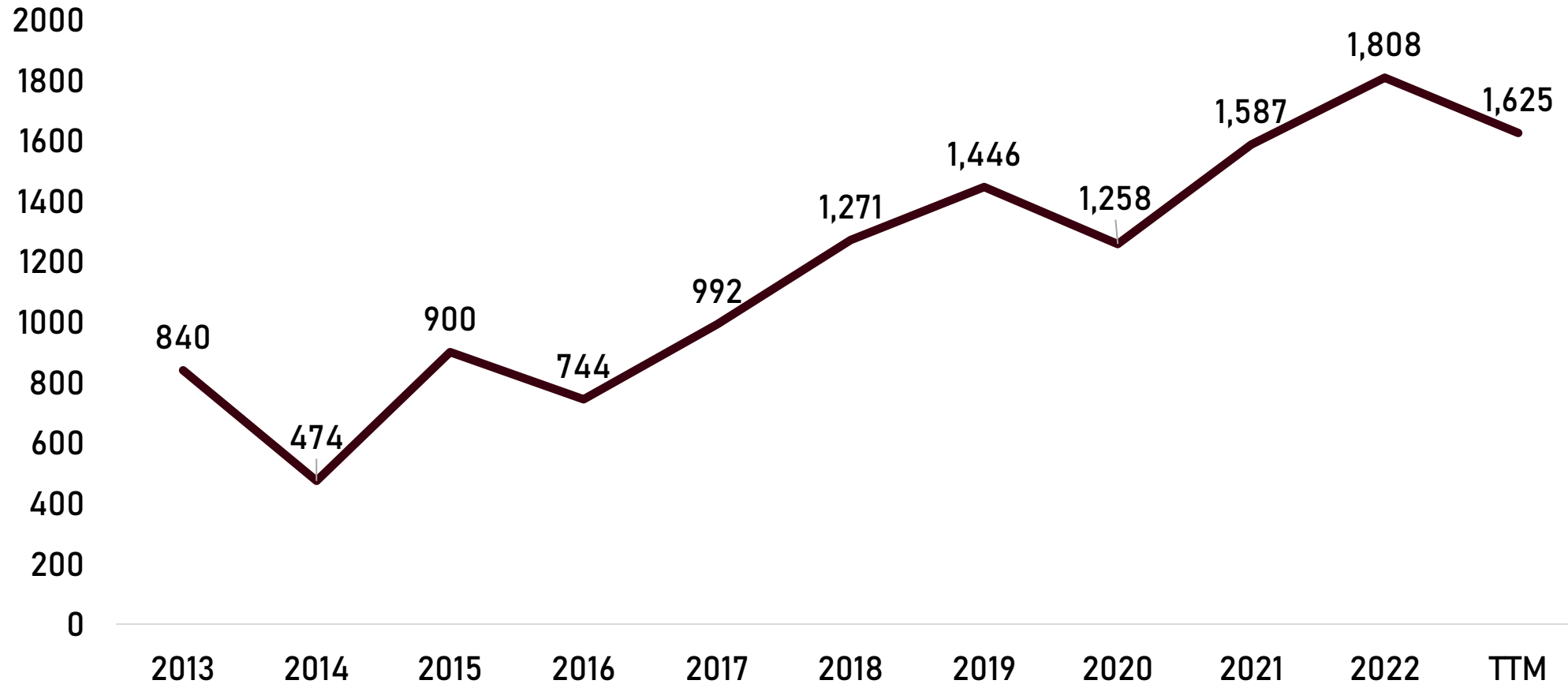
Long Term Incentives:

- PSU 65%
- 3-year CAGR in adjusted EPS
- 3-year relative TRS vs 2020 Financial Peer Group
- 3-year cumulative FCF
- RSU 35%: Retirement Plans,

Free Cash Flow In Millions of USD



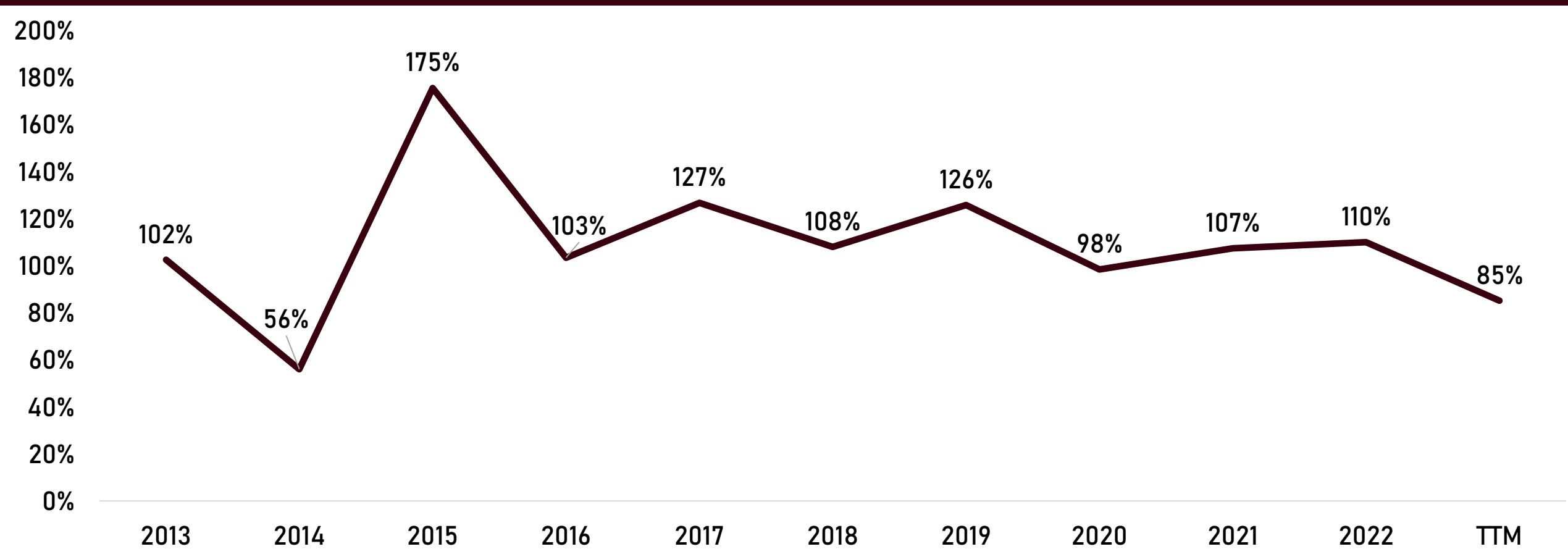
CAGR
3-Years: 9%
5-Years: 5%
10-Years: 7%



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Cash Realization Ratio

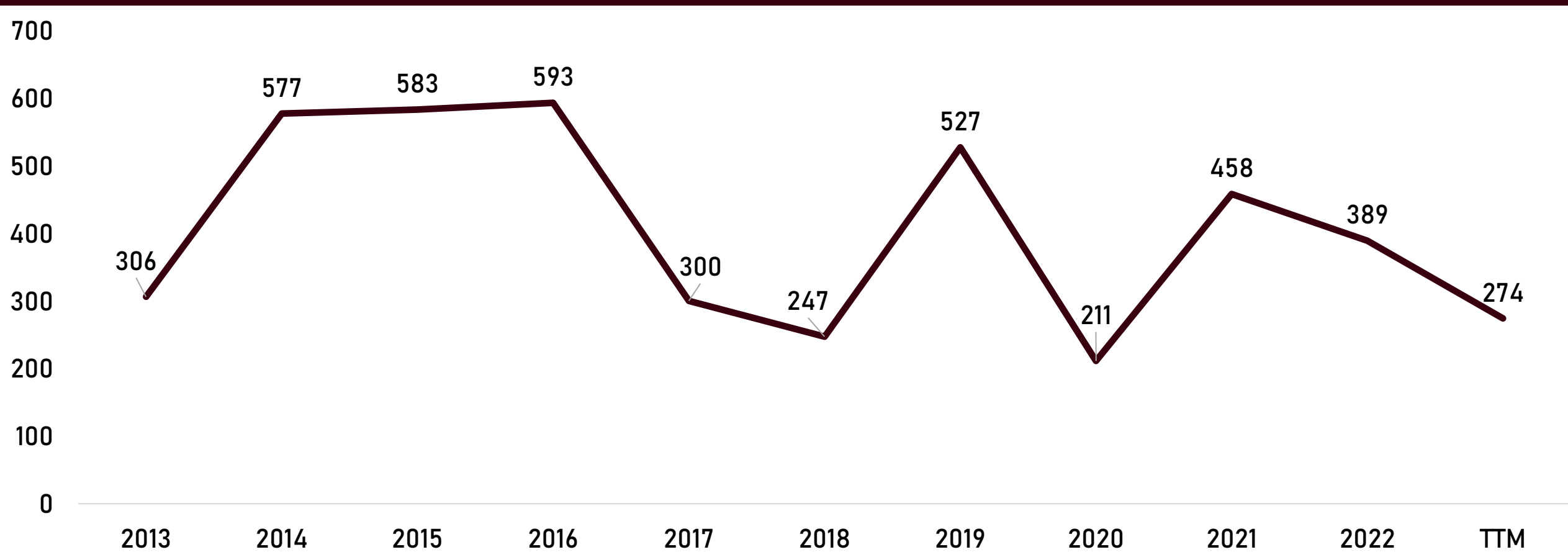


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Share Repurchases

In Millions of USD



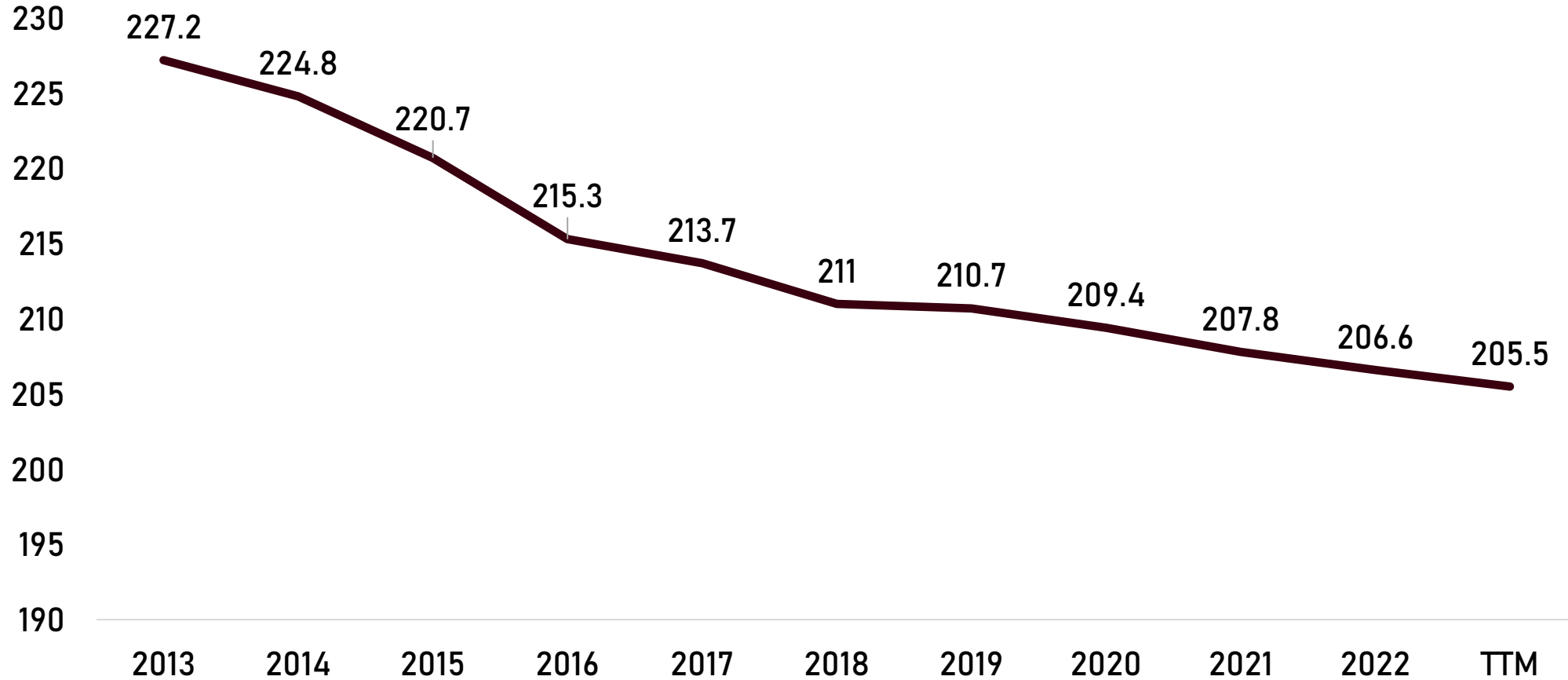
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Shares Outstanding



CAGR
3-Years: -1%
5-Years: -1%
10-Years: -1%



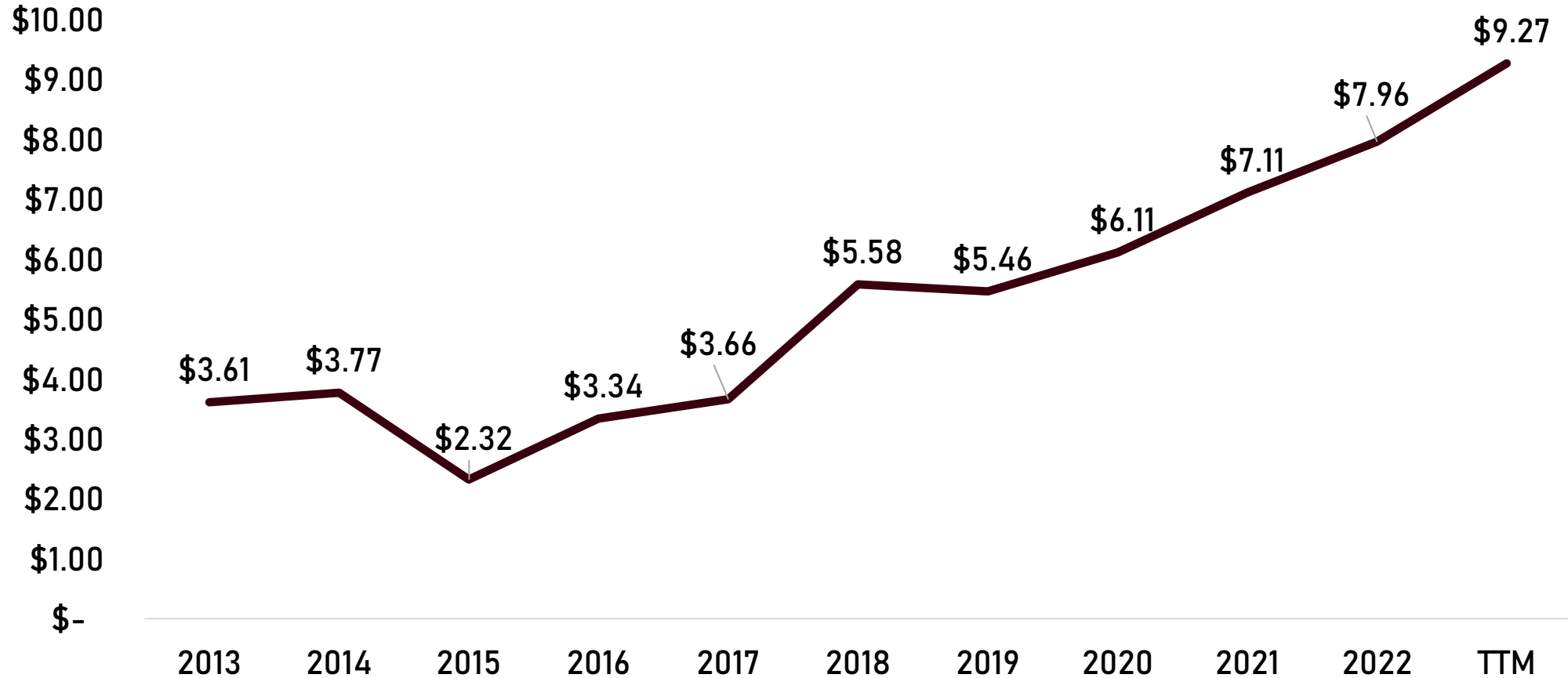
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Earnings Per Share



CAGR
3-Years: 14%
5-Years: 11%
10-Years: 10%



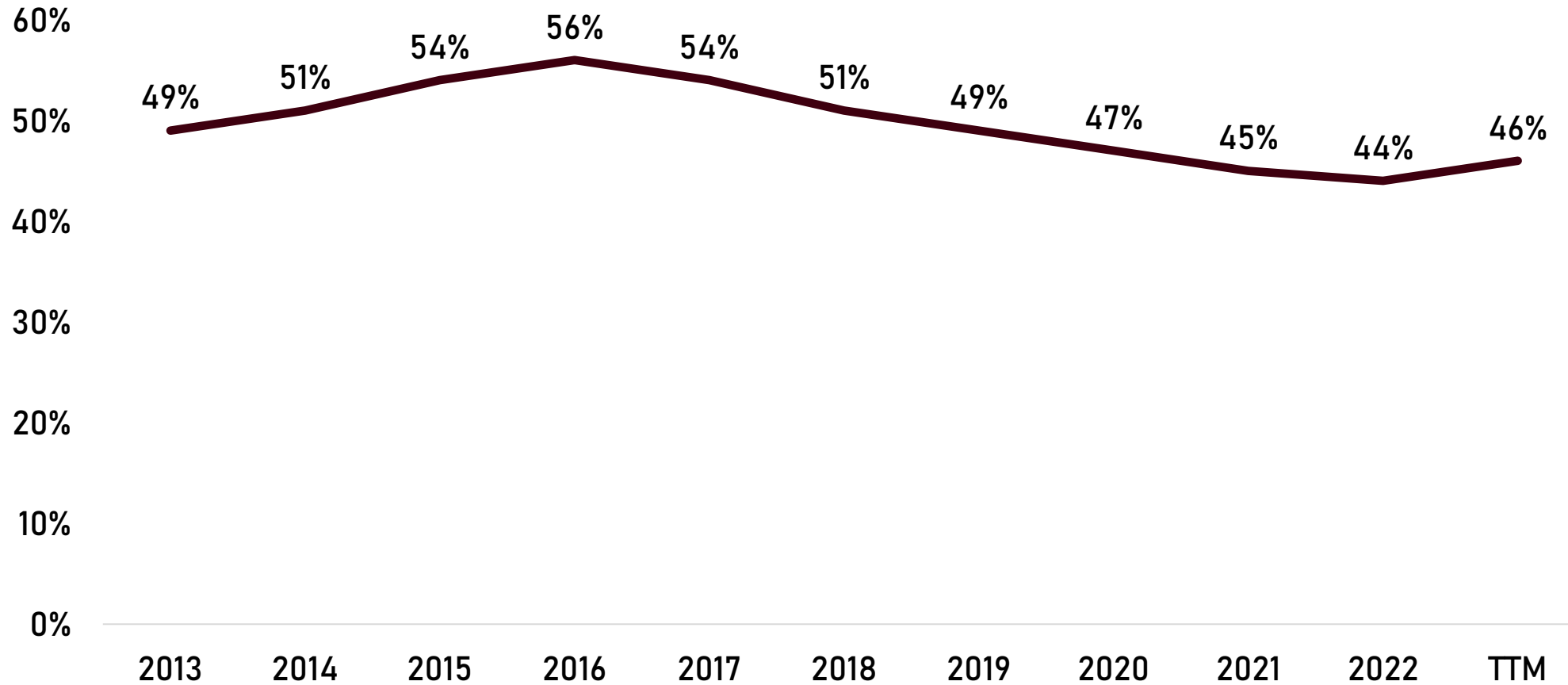
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Dividend Payout Ratio



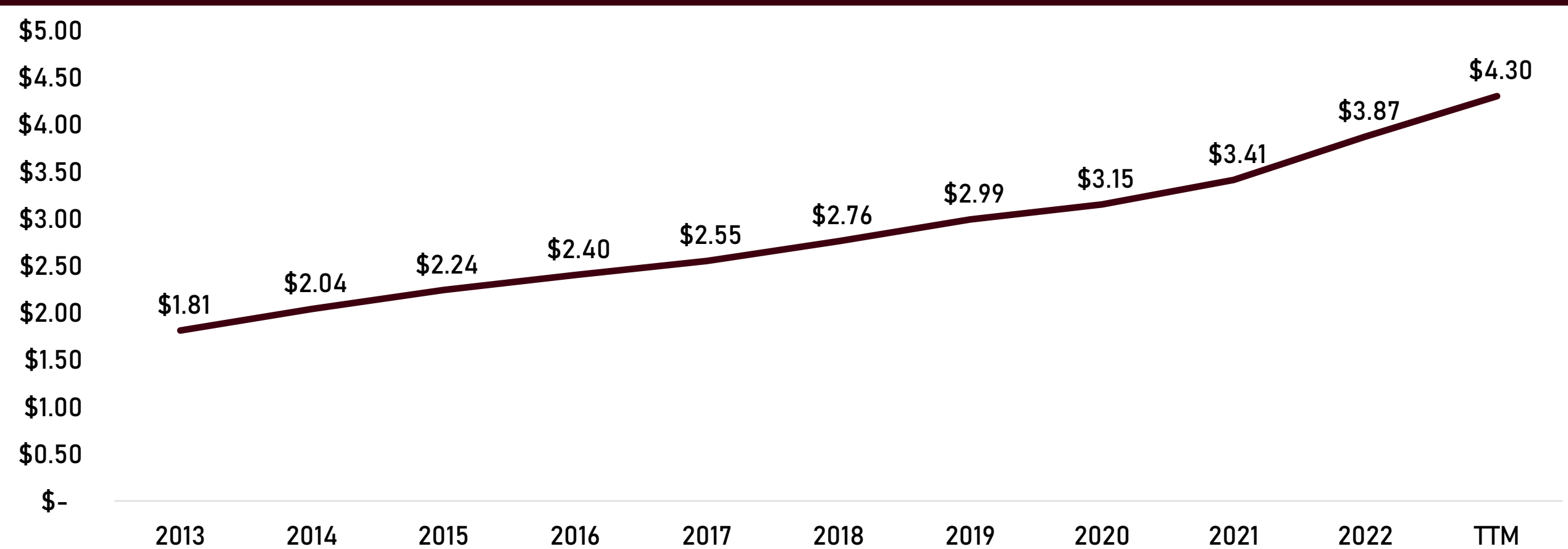
Below 60%
Threshold



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Dividends Per Share

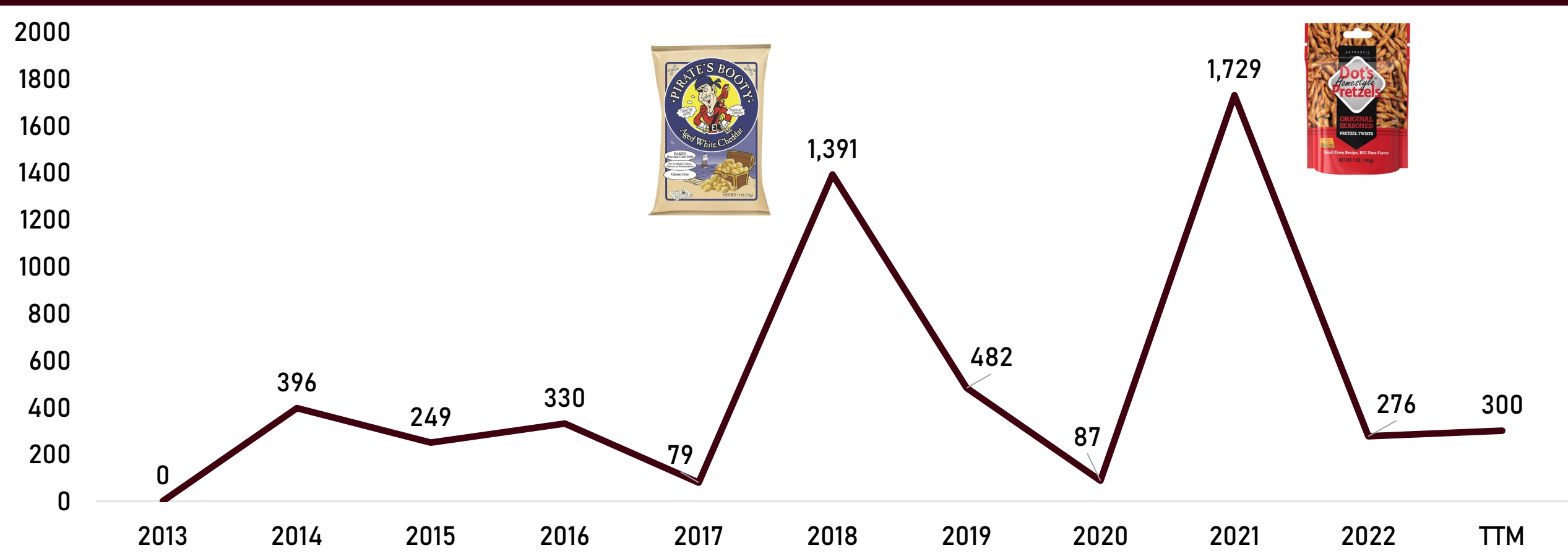


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Acquisitions

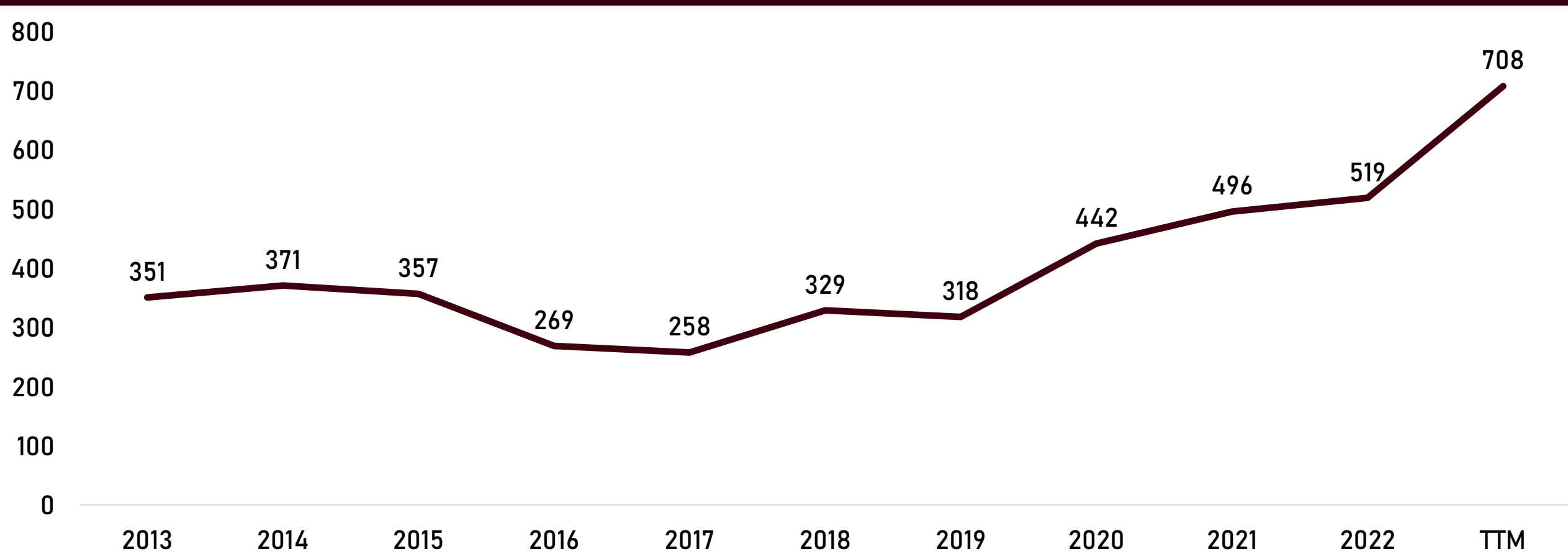
In Millions of USD



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Capital Expenditures In Millions of USD



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Revenue Breakdown

Pablo Samanez



Sales Growth



Trailing Twelve Months
Revenue: \$11.2 Billion

Fiscal Year 2022
Revenue: \$10.4 Billion

Fiscal Year 2021
Revenue: \$8.9 Billion

Growth: 16.9%



Segments TTM

In Millions of USD



North America Confectionery

\$9,078

Margin: 32.9%

North America Salty Snacks

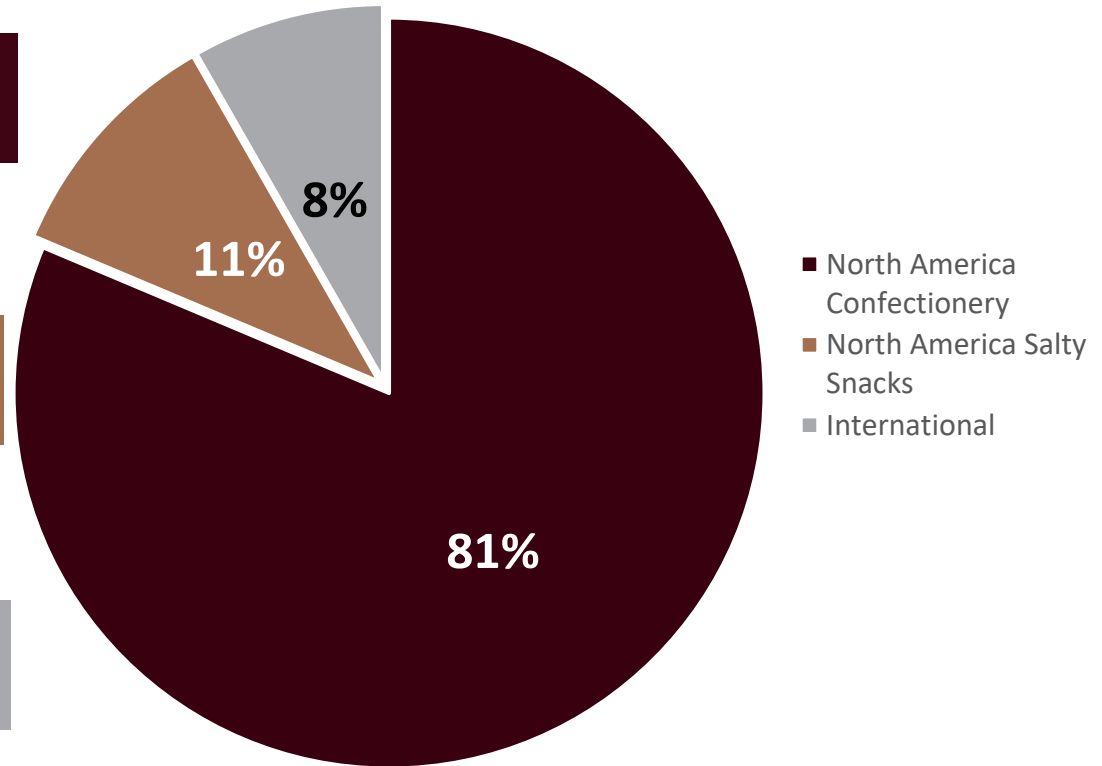
\$1,159

Margin: 15.5%

International

\$923

Margin: 12.6%



North America Confectionery



Revenue
Breakdown

Chocolate and Non-chocolate
confectionery



Spreads



Gum and Refreshment
products



Snack bites and Mixes



Protein Bars



Pantry and Food Service Lines



Segment Net Sales In Millions of USD



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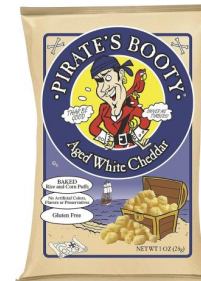
North America Salty Snacks



Ready-To-Eat Popcorn



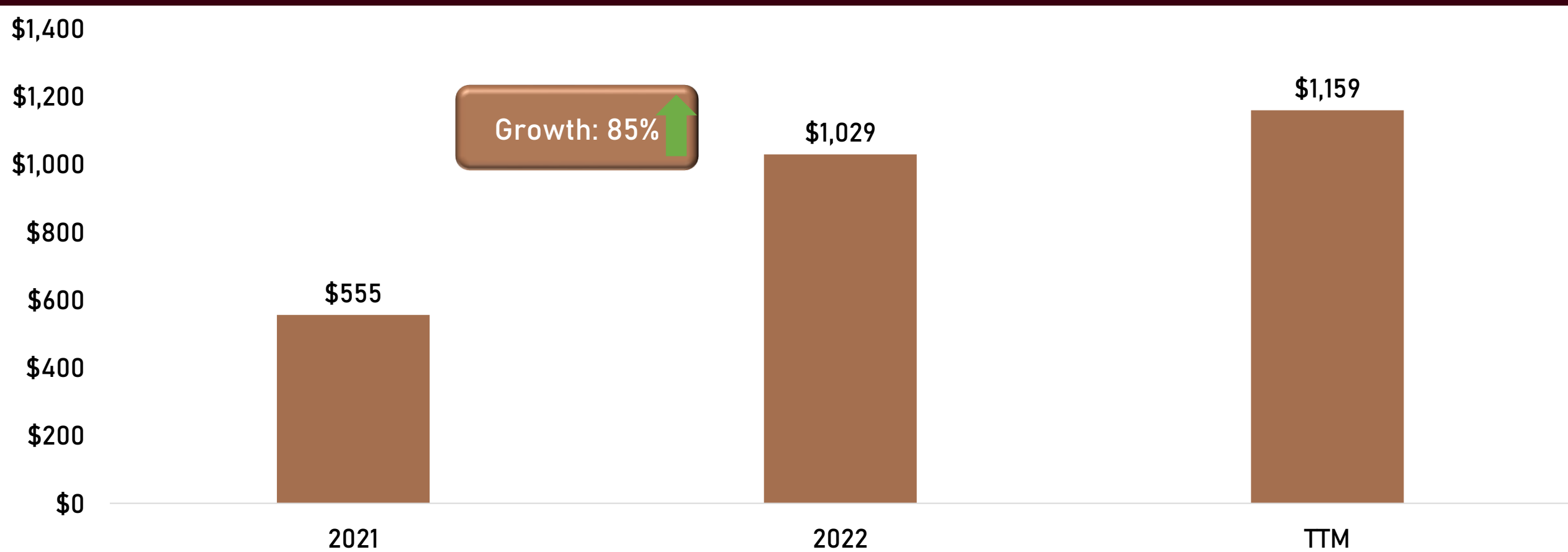
Baked and Trans-Fat Free Snacks



Pretzels and Other Snacks



Segment Net Sales In Millions of USD



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International



Revenue
Breakdown

Confectionary Products

Asia

Latin
America

Middle East

Europe

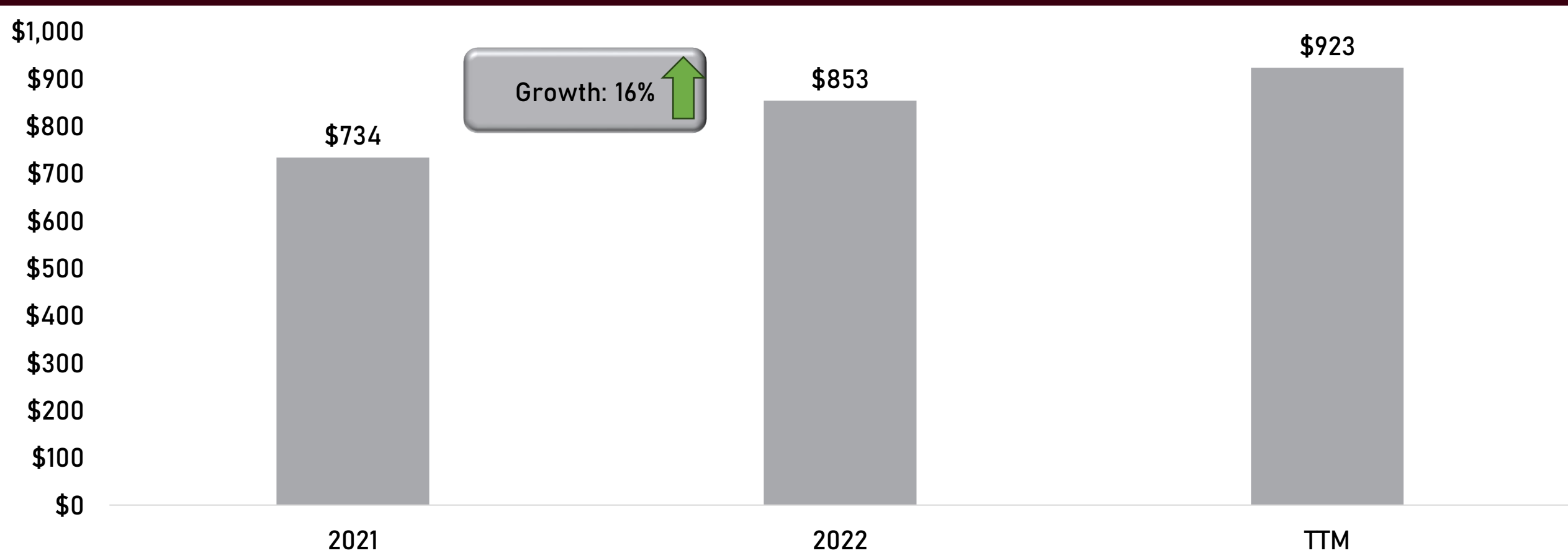
Africa



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Segment Net Sales In Millions of USD



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Geographical Sales

*Amount In Millions

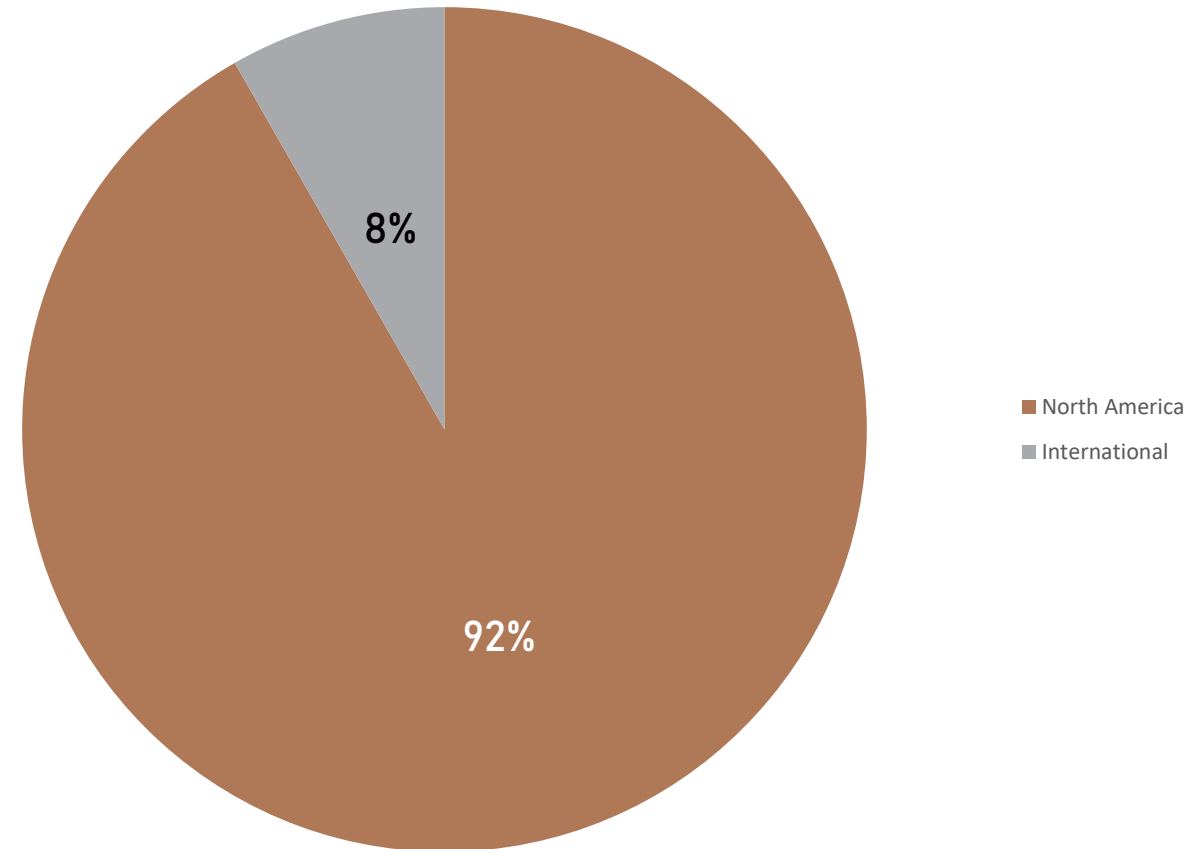


North America

\$10,237

International

\$1,159



Competitor Analysis

Pablo Samanez



Competitors



MARS
incorporated



LINDT & SPRÜNGLI

Mondelez



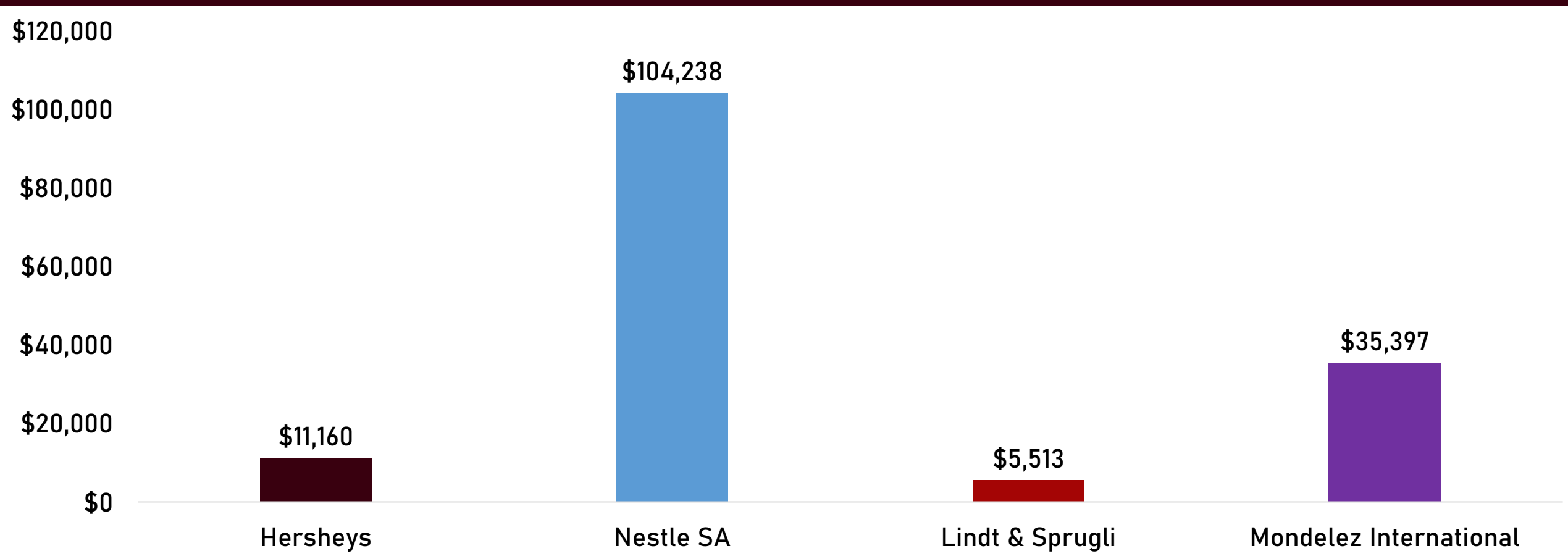
Note: Mars is not publicly traded

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Revenue (TTM)

In Millions of USD

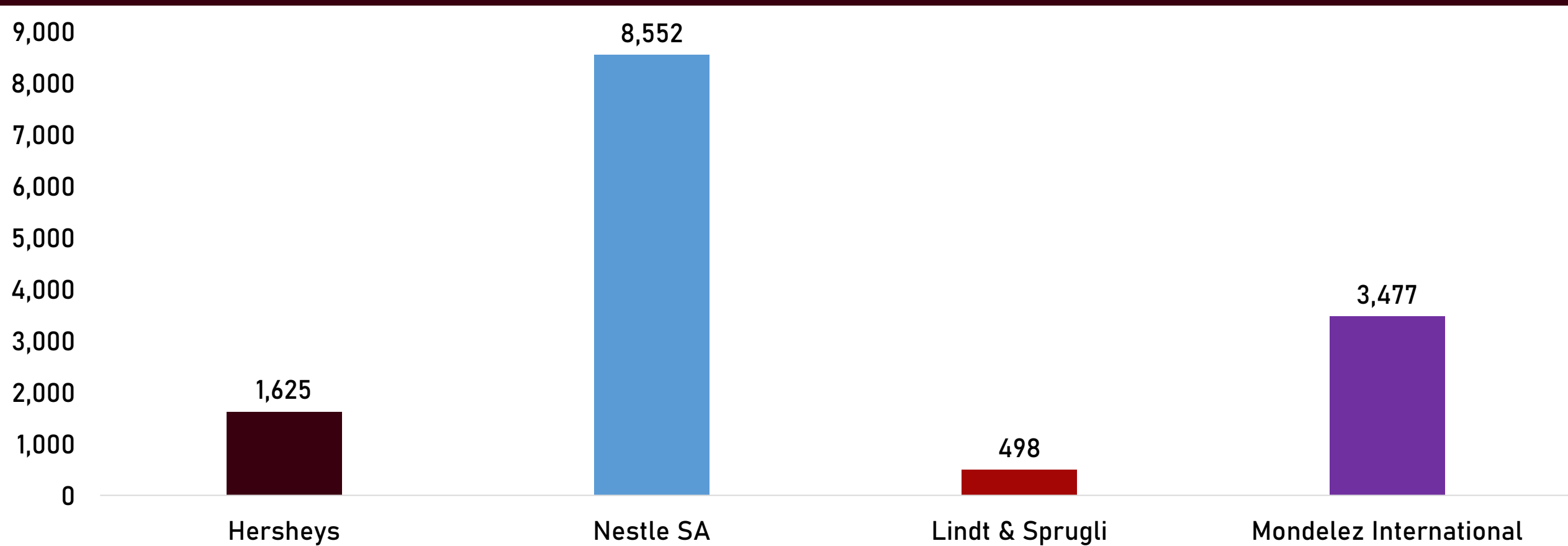


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Free Cash Flow (TTM)

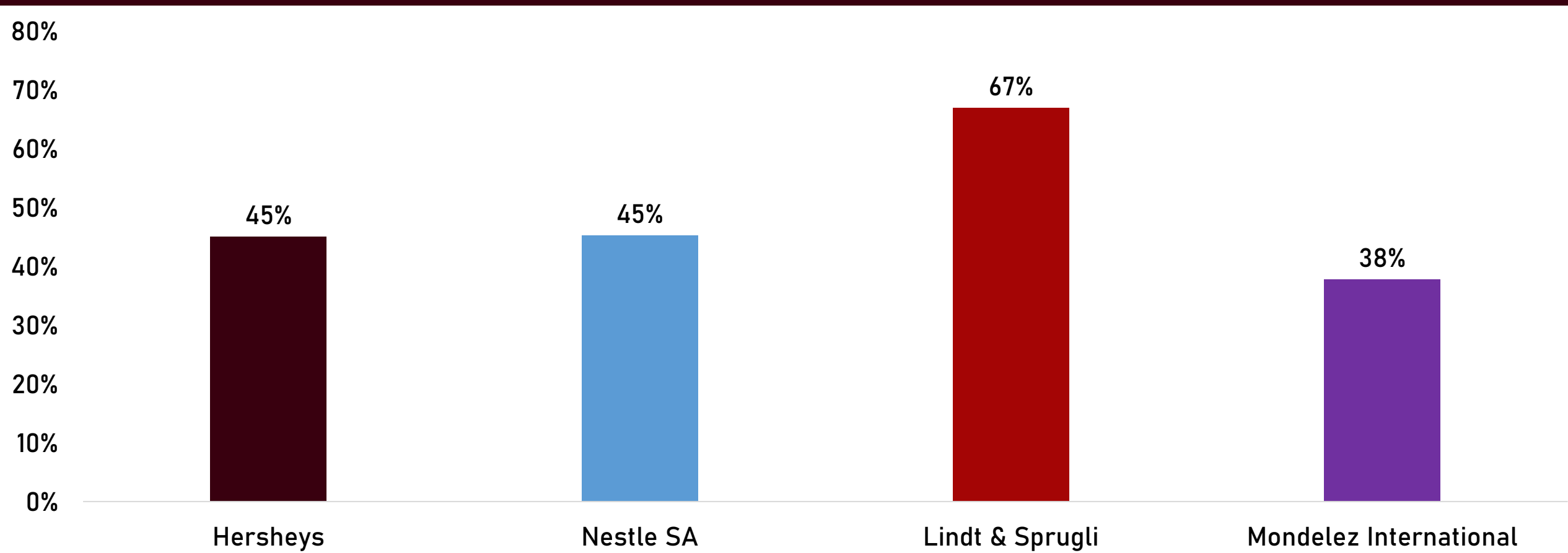
In Millions of USD



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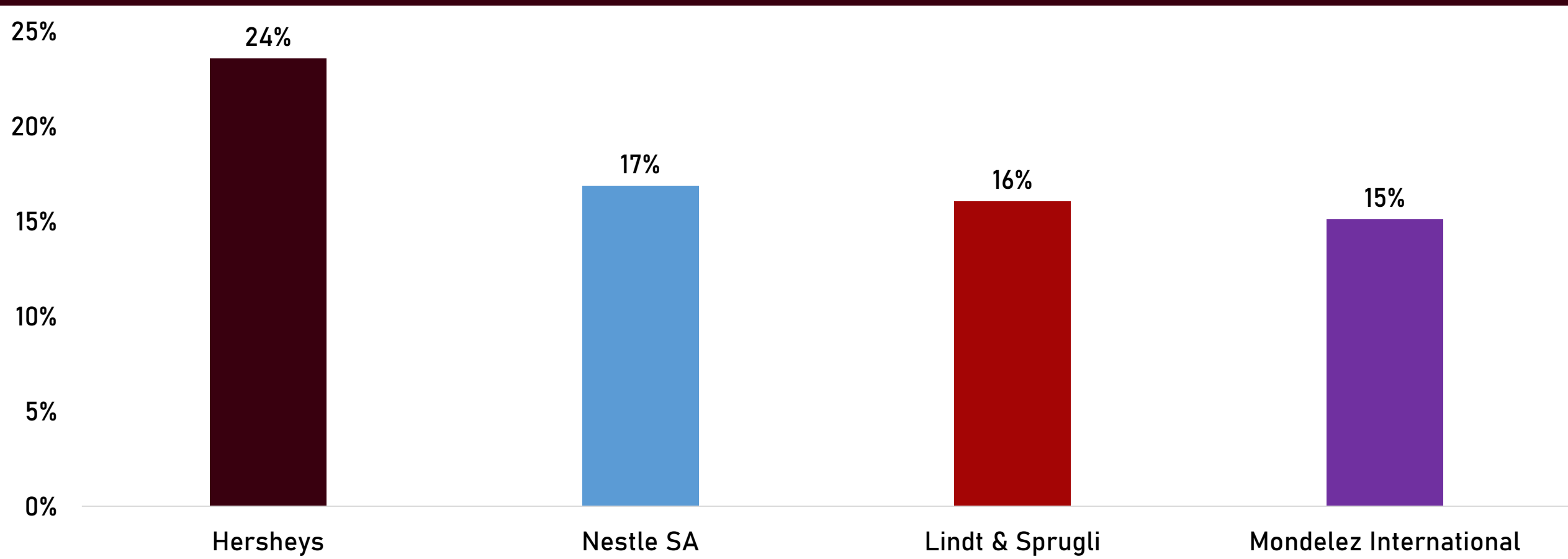
Gross Margin_(TTM)



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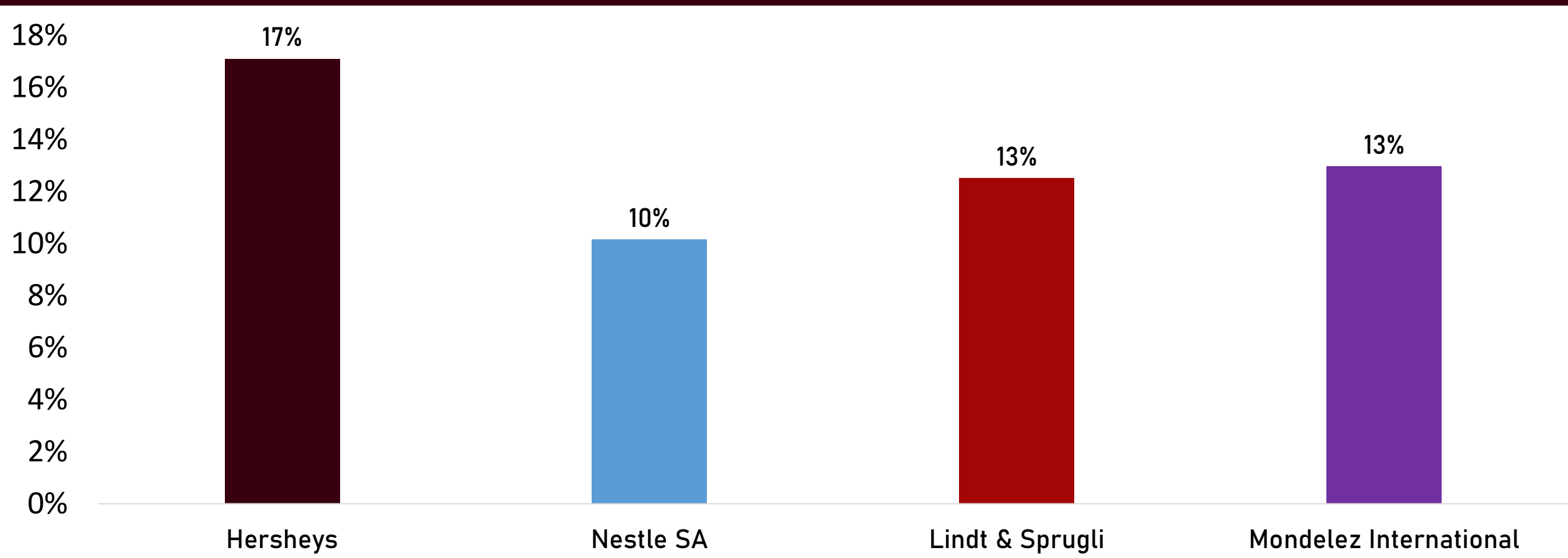
Operating Margin (TTM)



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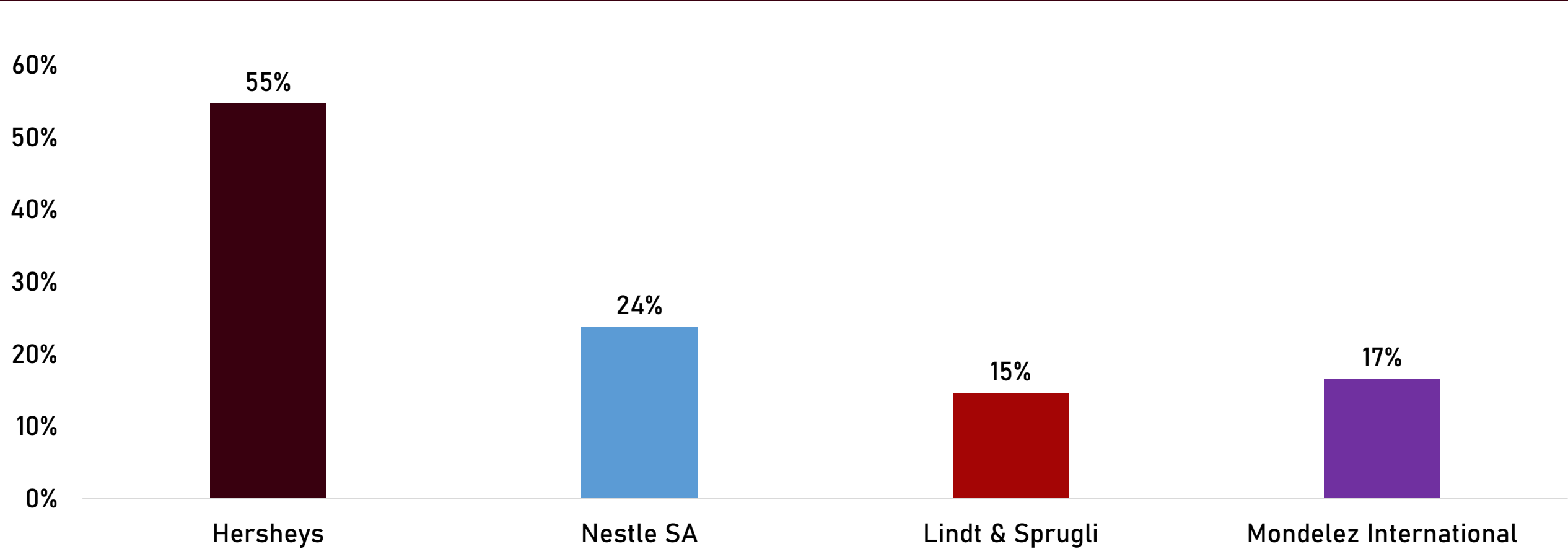
Net Margin (TTM)



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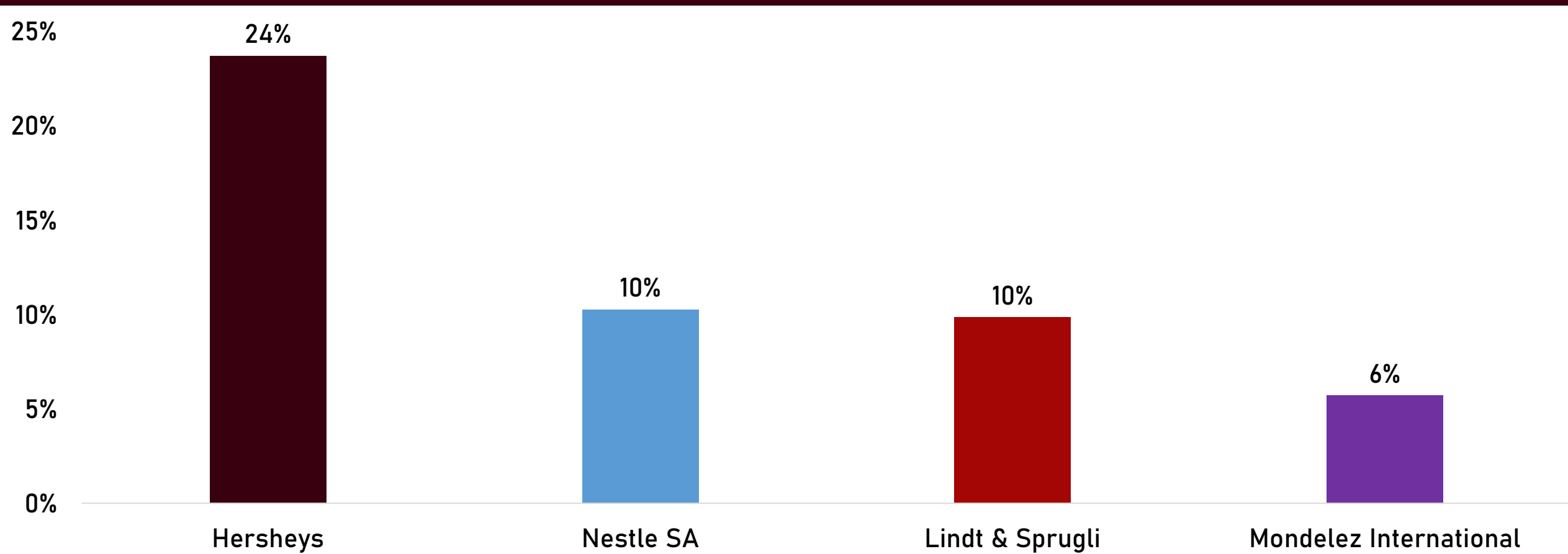
Return on Equity (TTM)



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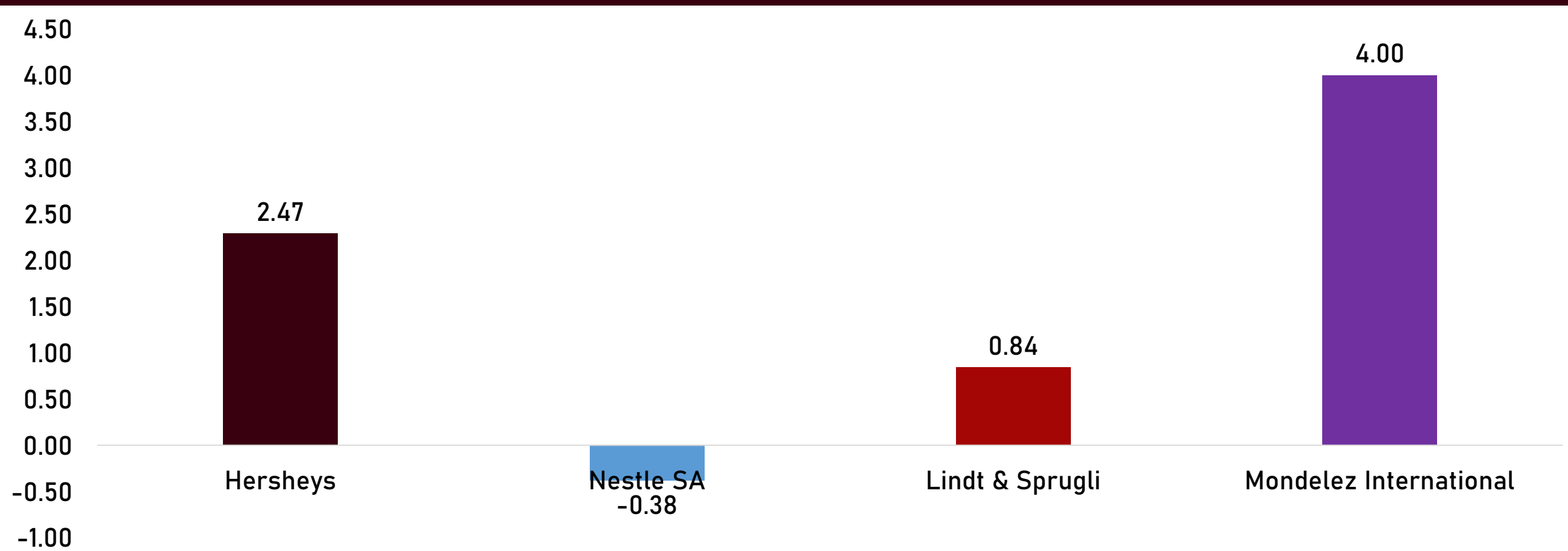
Return on Invested Capital (TTM)



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Obligation Ratio (TTM)



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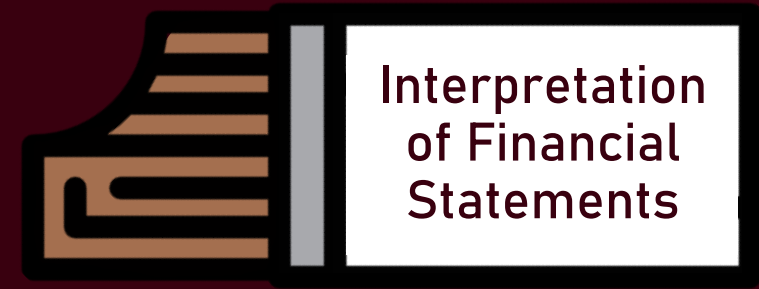
Interpretation of Financial Statements

Enrique Alvarado

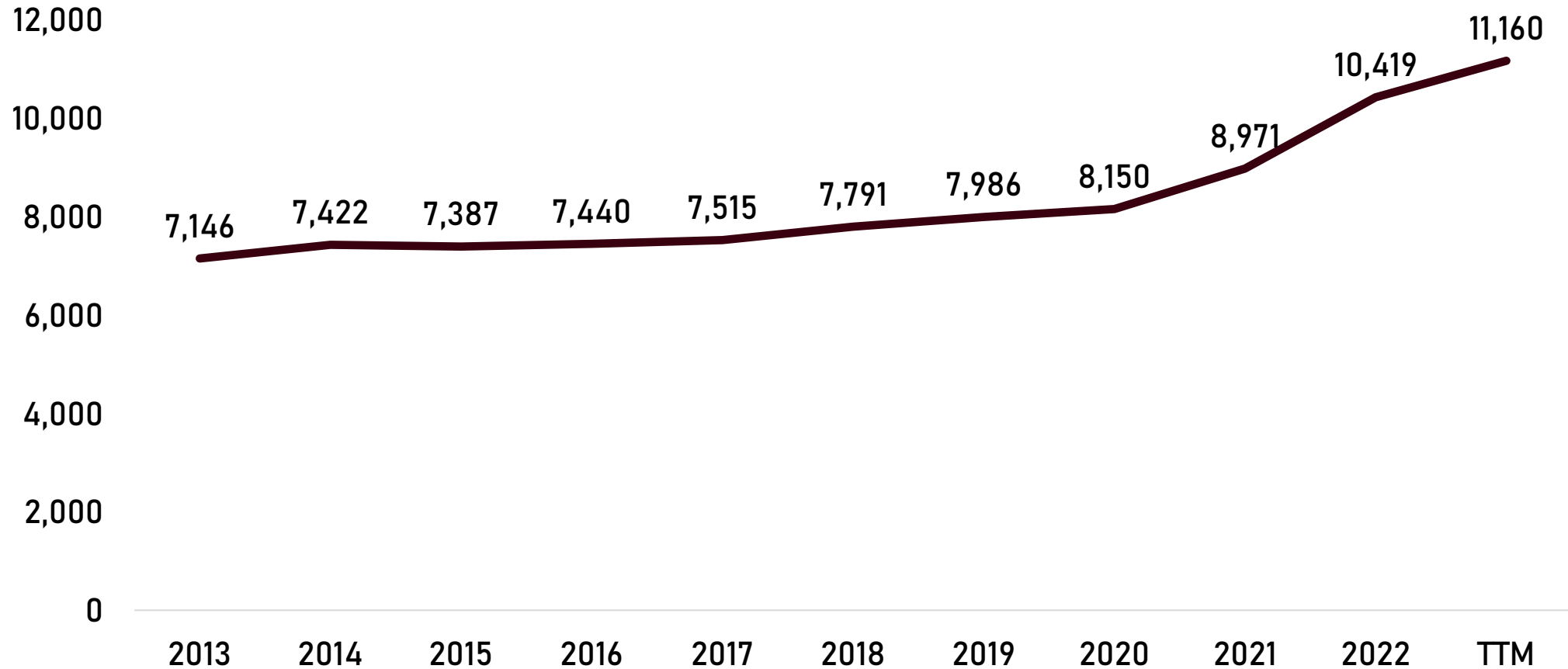


Revenue

In Millions of USD



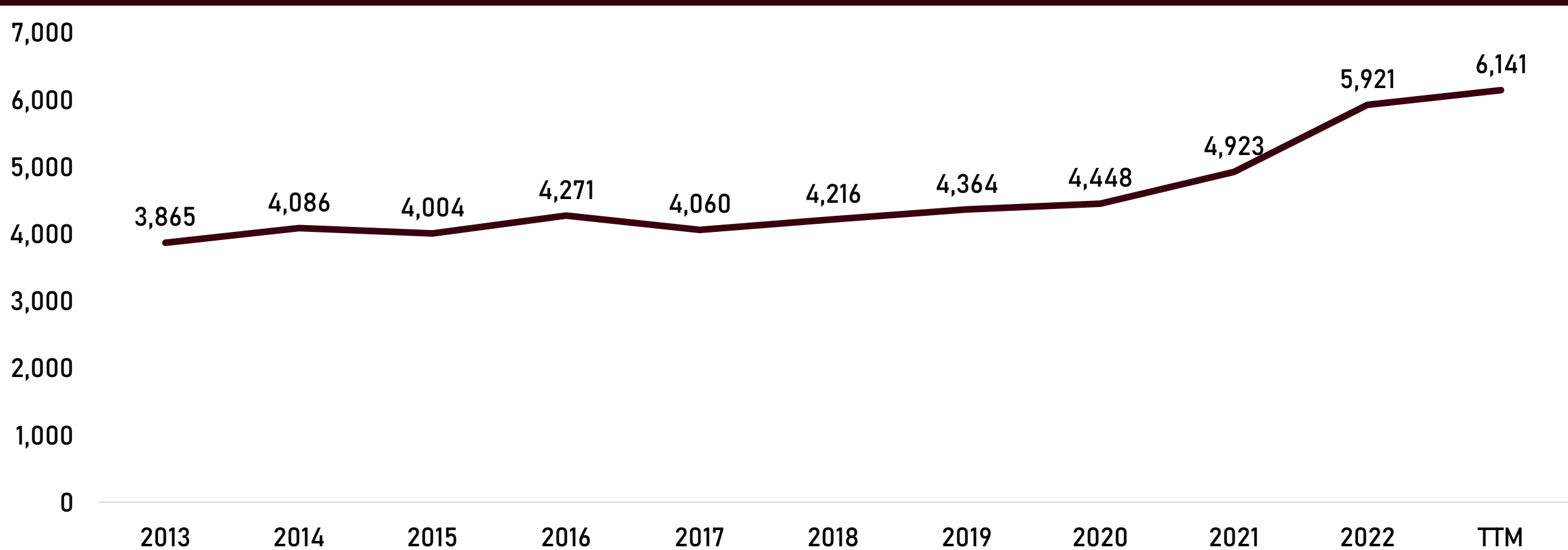
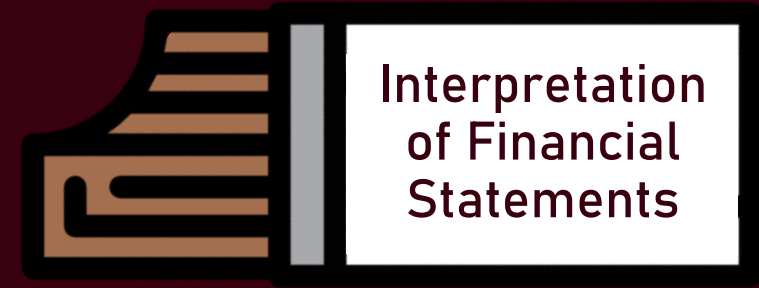
CAGR
3-Years: 11%
5-Years: 8%
10-Years: 5%



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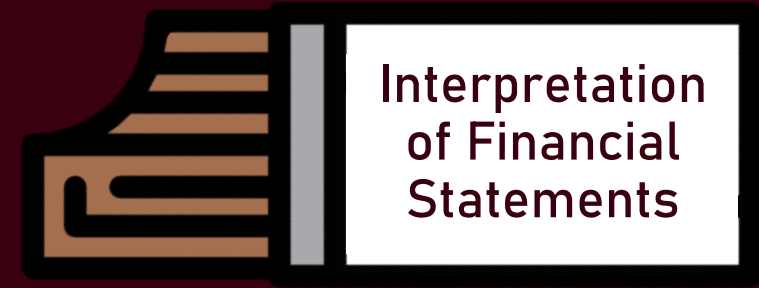
Cost of Goods Sold In Millions of USD



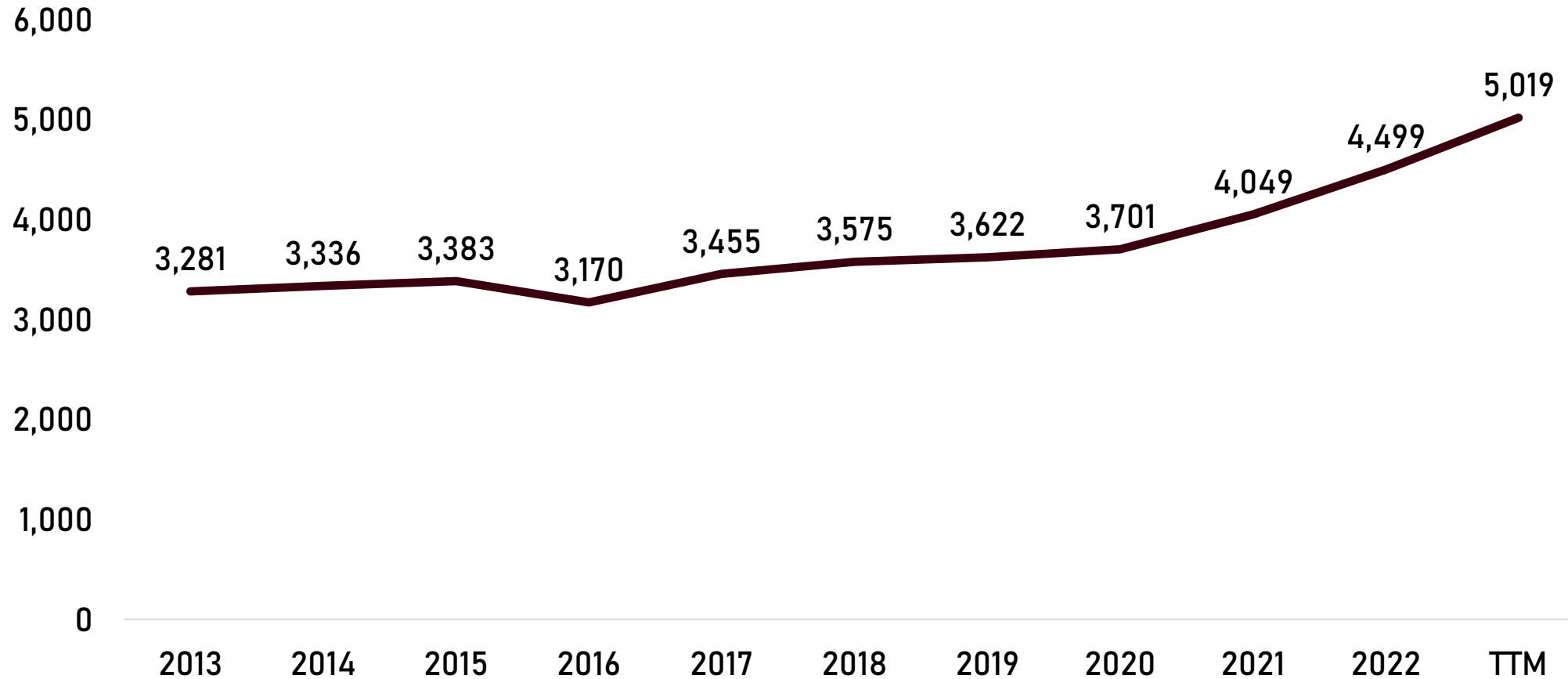
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Gross Profit In Millions of USD



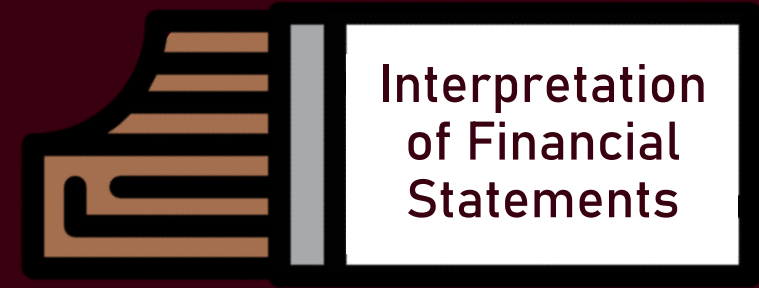
CAGR
3-Years: 11%
5-Years: 7%
10-Years: 4%



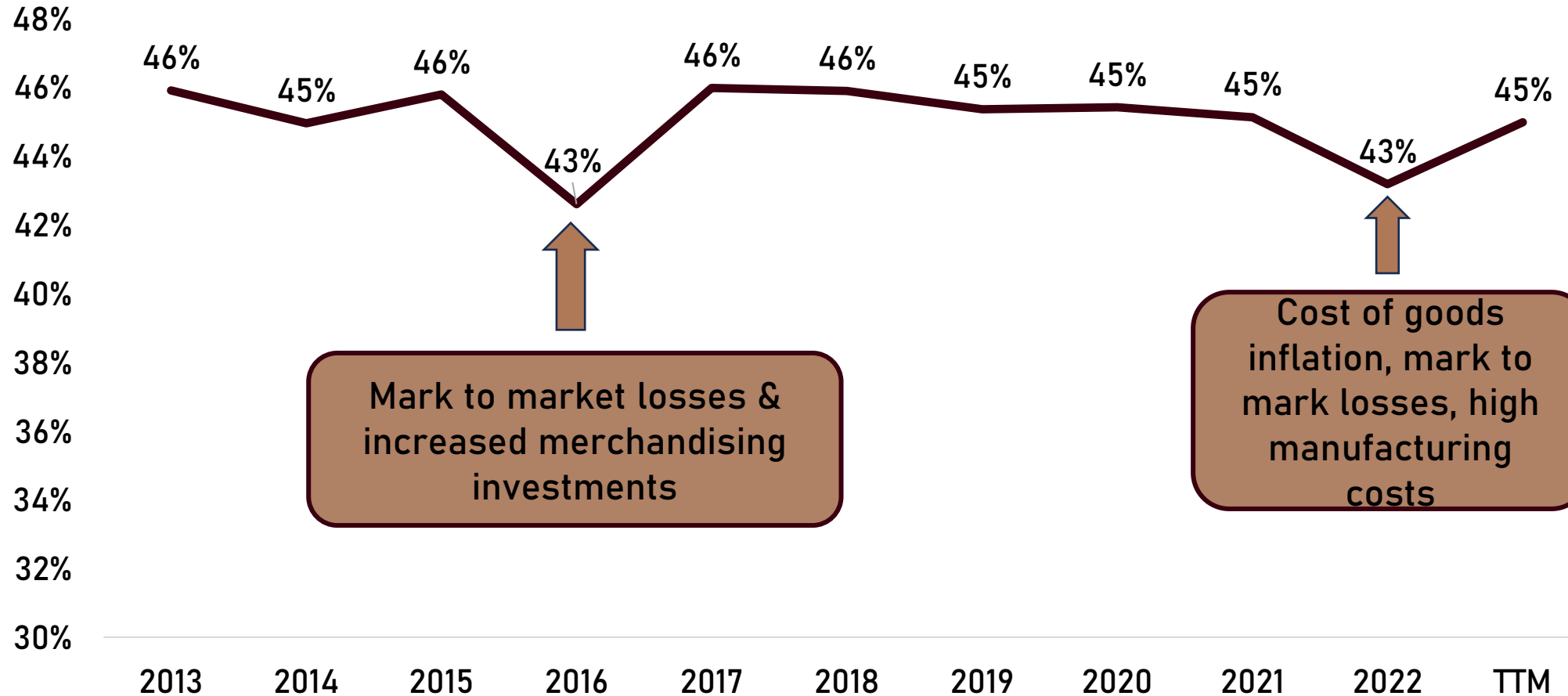
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Gross Margin



Above 40% Threshold



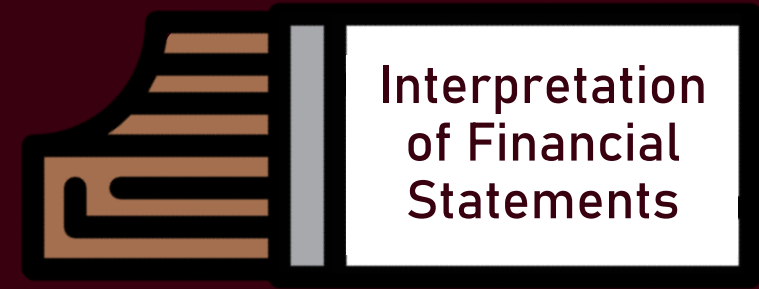
Mark to market losses & increased merchandising investments

Cost of goods inflation, mark to mark losses, high manufacturing costs

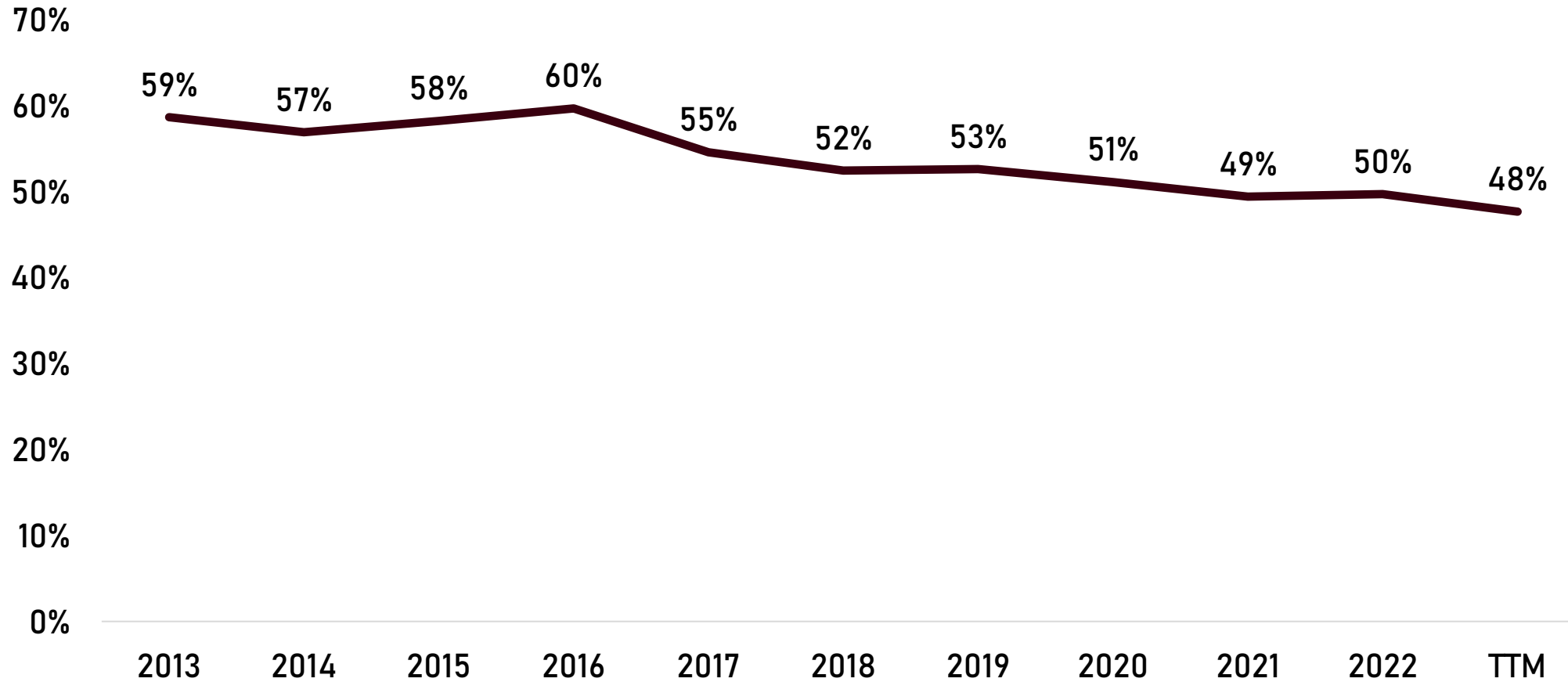
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SGA as a % of Gross Profit



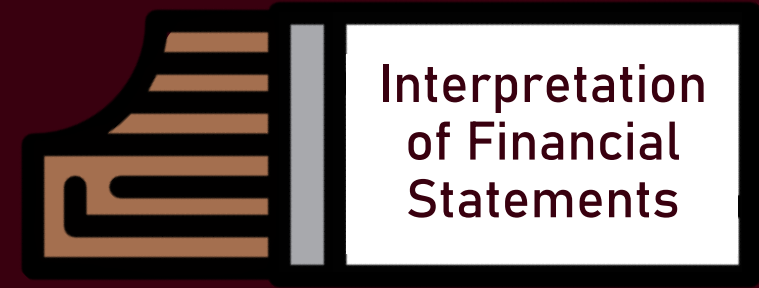
Below 80% Threshold



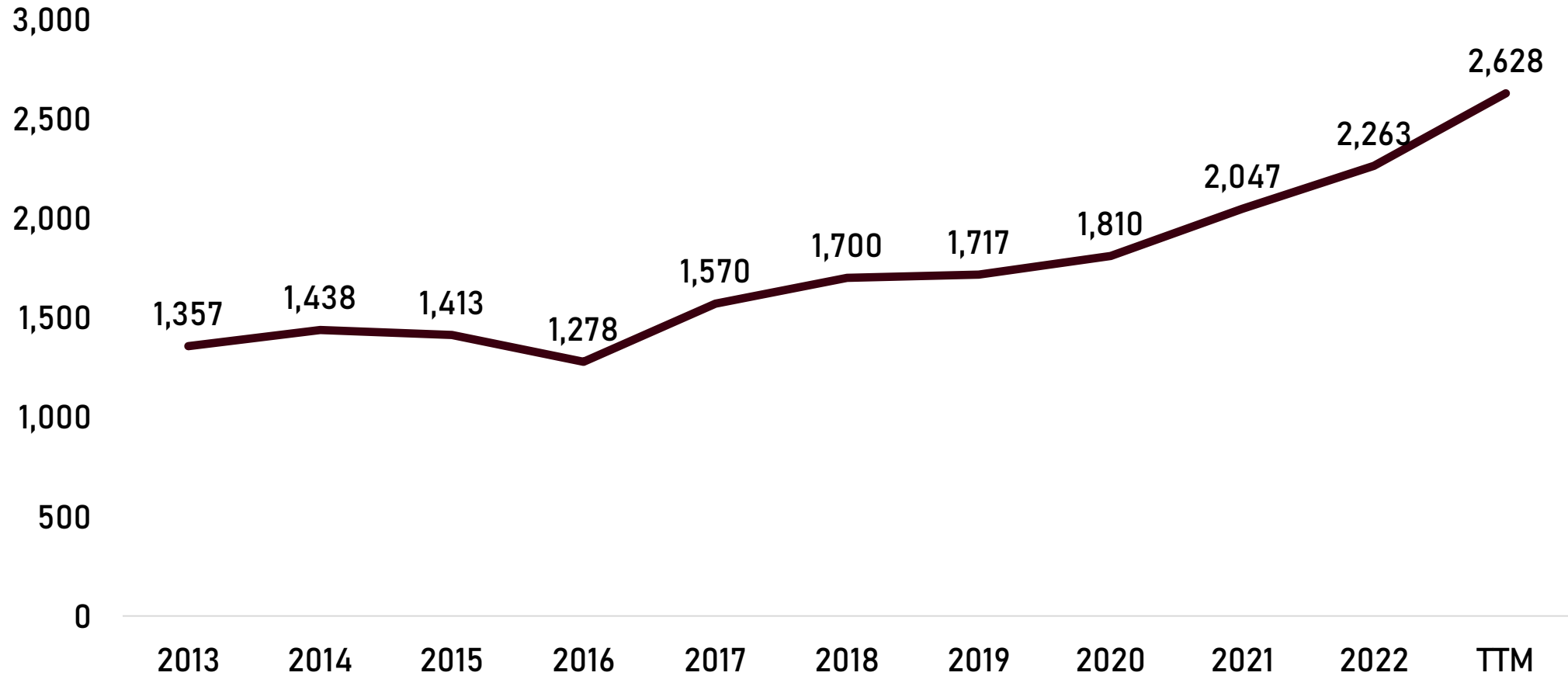
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Operating Income In Millions of USD



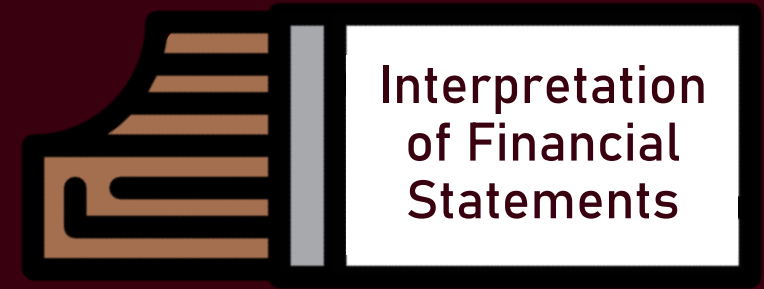
CAGR
3-Years: 13%
5-Years: 9%
10-Years: 7%



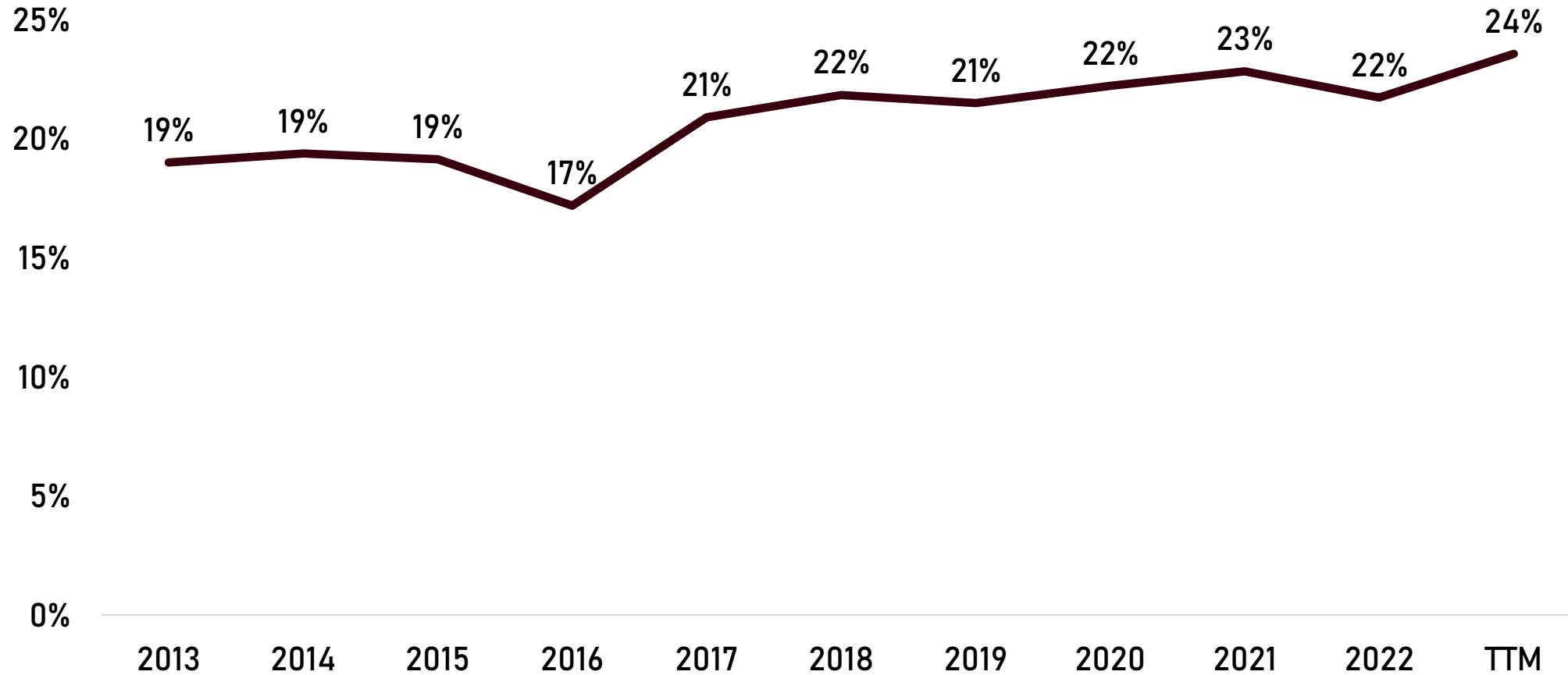
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The Hershey Co.

Operating Margin



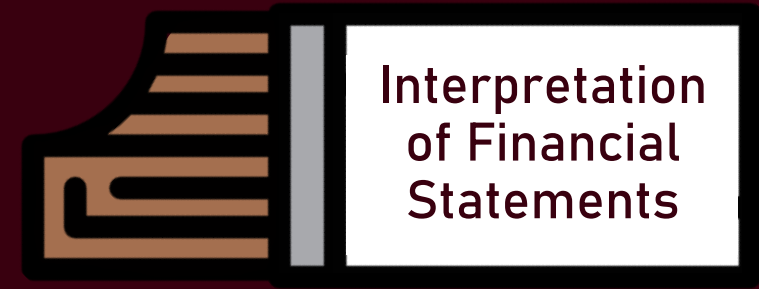
Above 20% Threshold



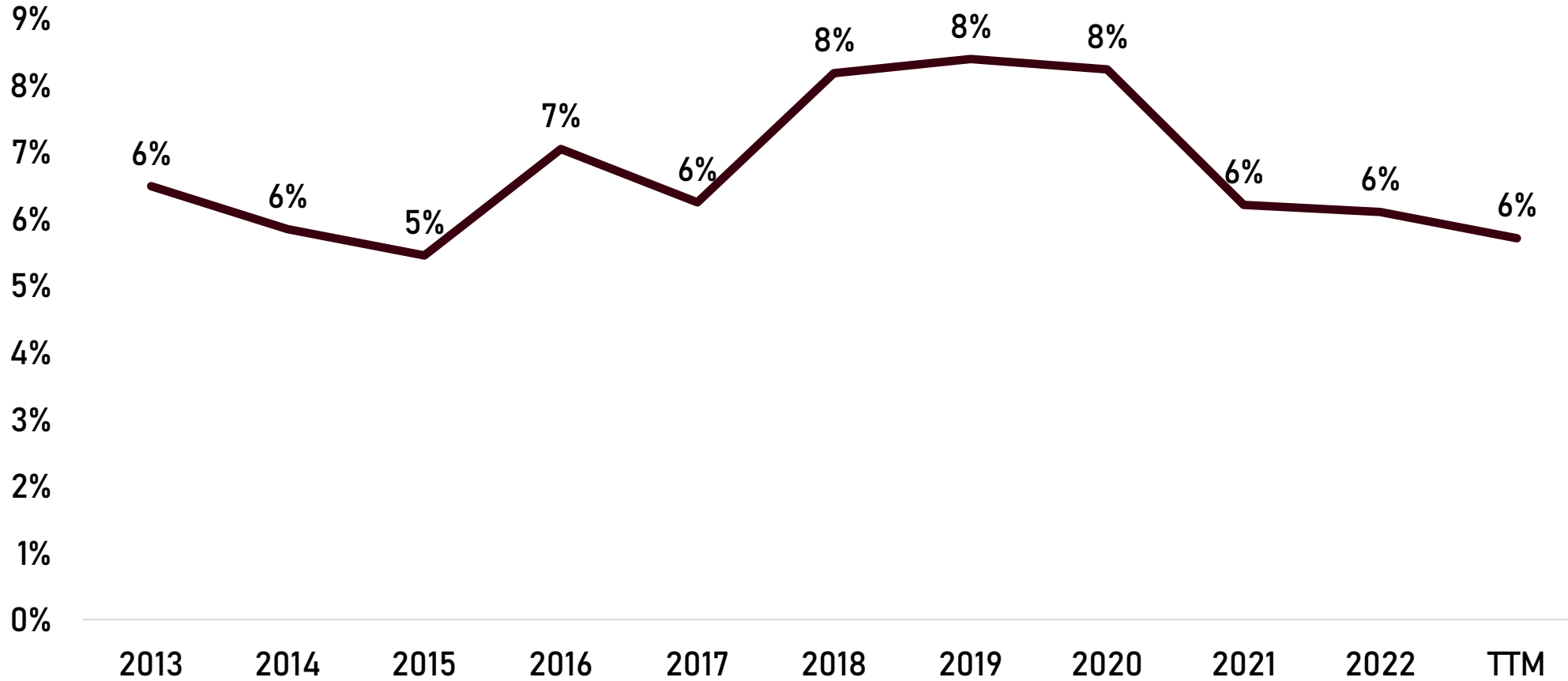
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Interest Expense as a % of Operating Income



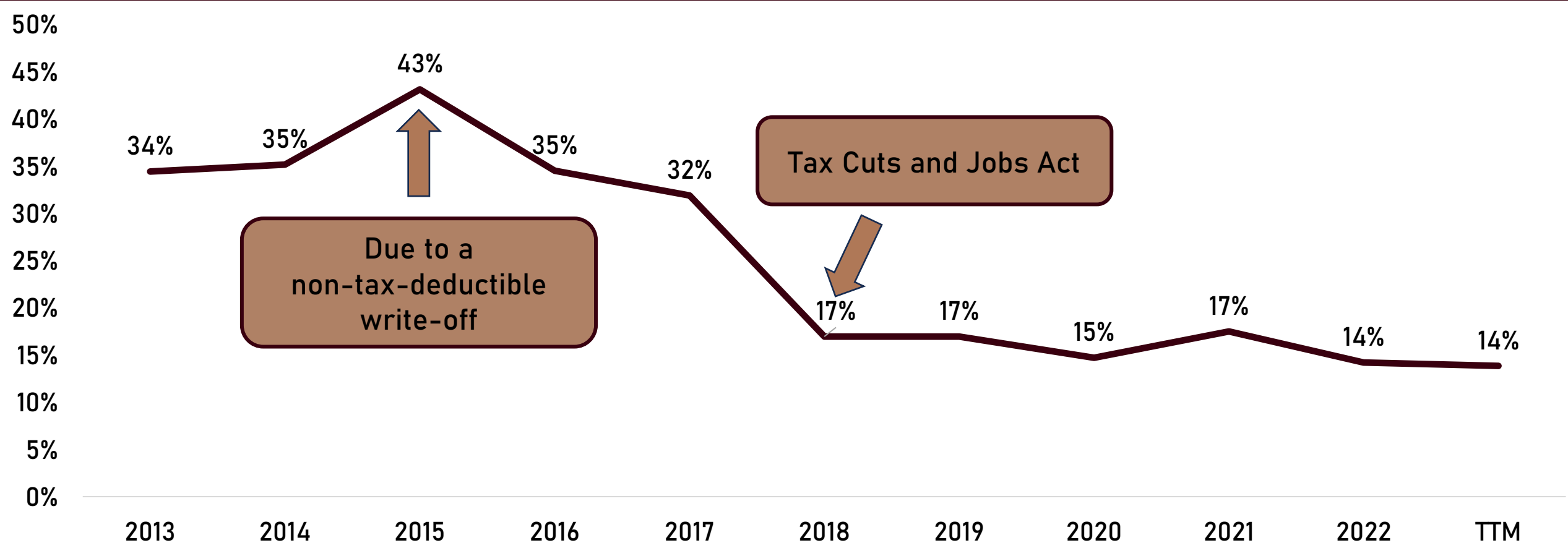
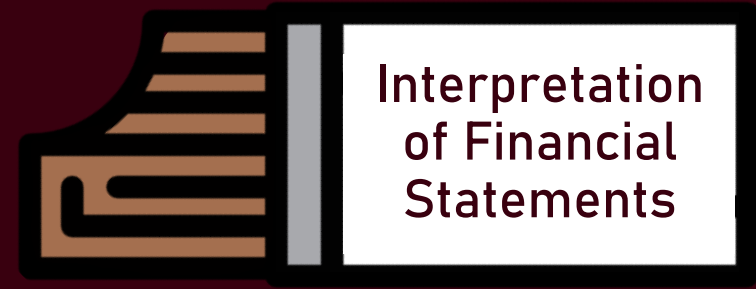
Below 15% Threshold



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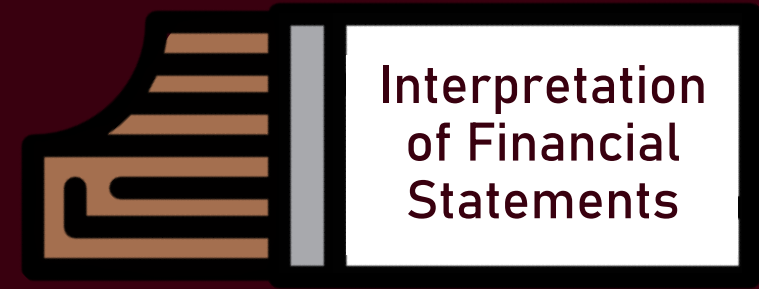
Tax Rate



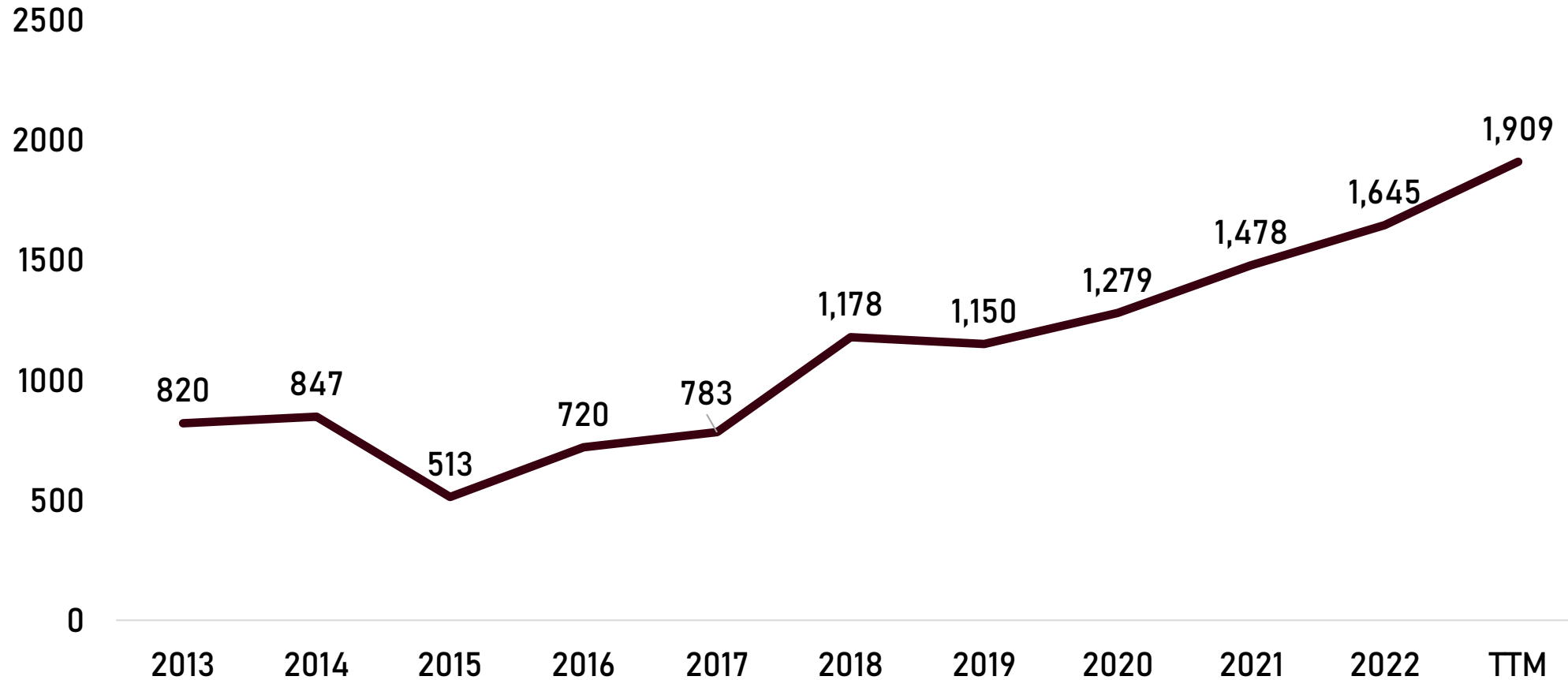
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Net Income In Millions of USD



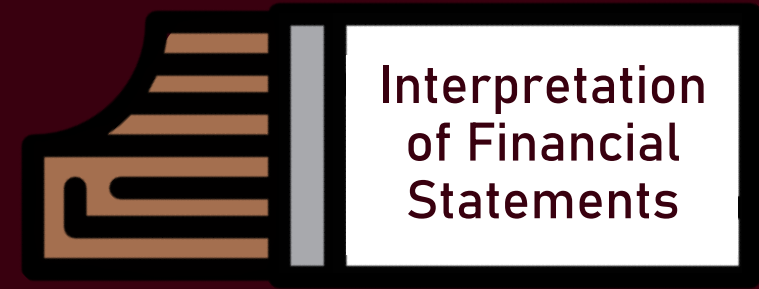
CAGR
3-Years: 14%
5-Years: 10%
10-Years: 7%



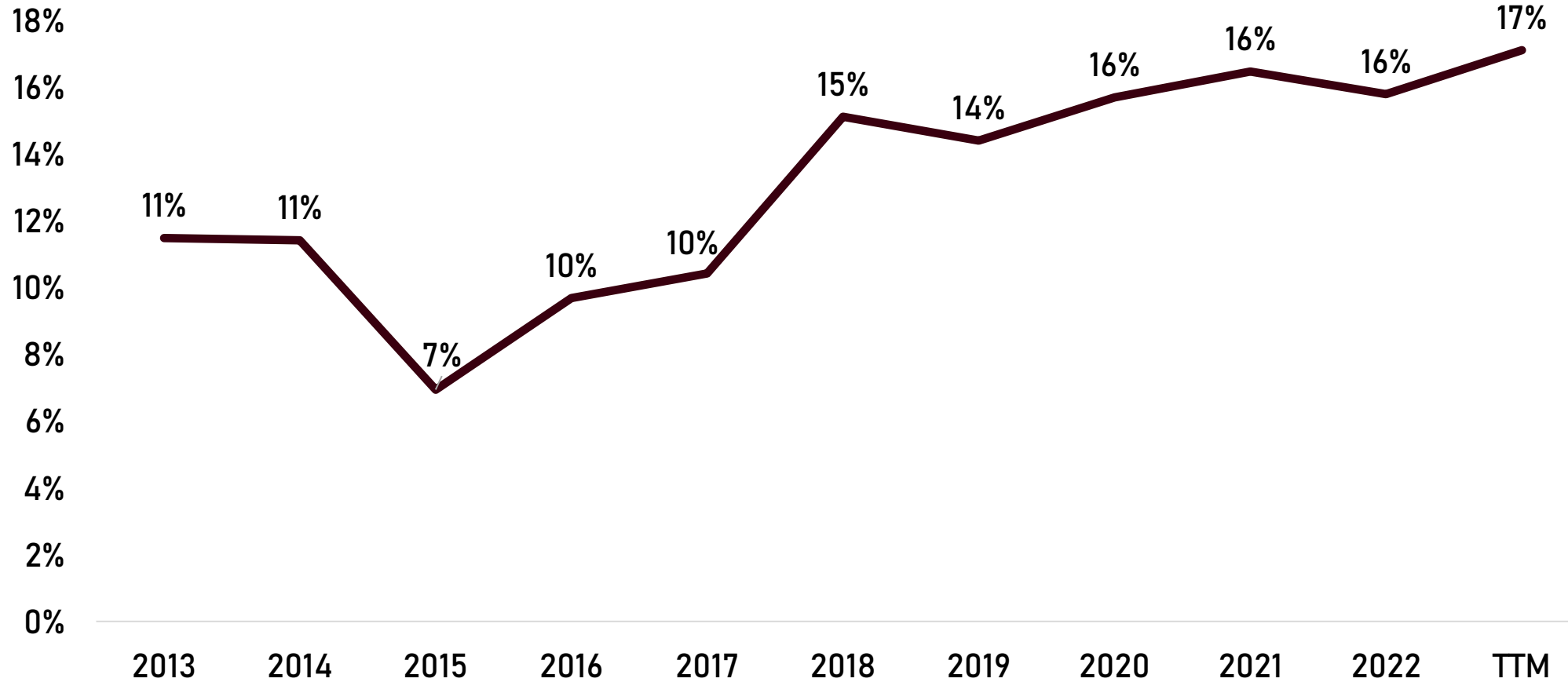
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Net Margin



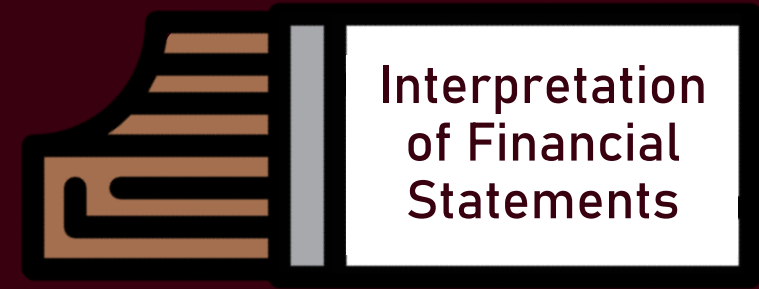
Above 10% Threshold



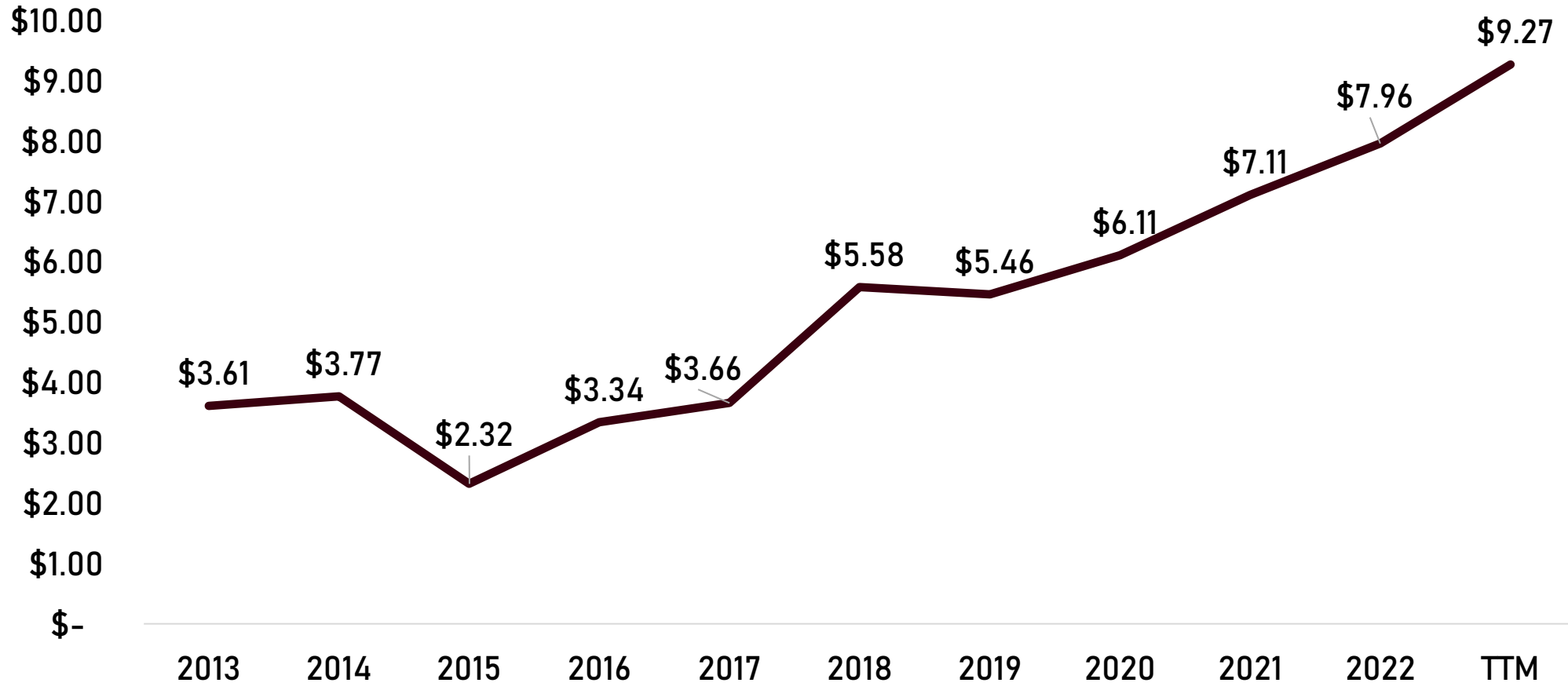
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Earnings Per Share



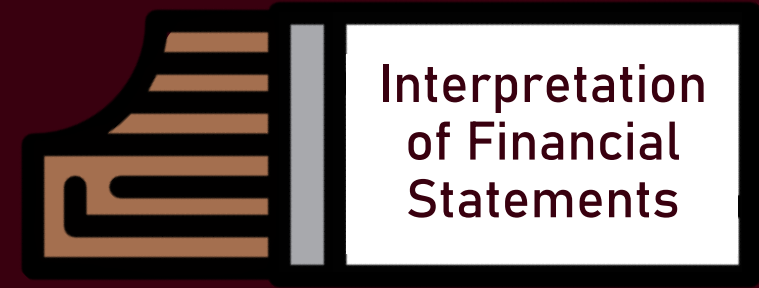
CAGR
3-Years: 14%
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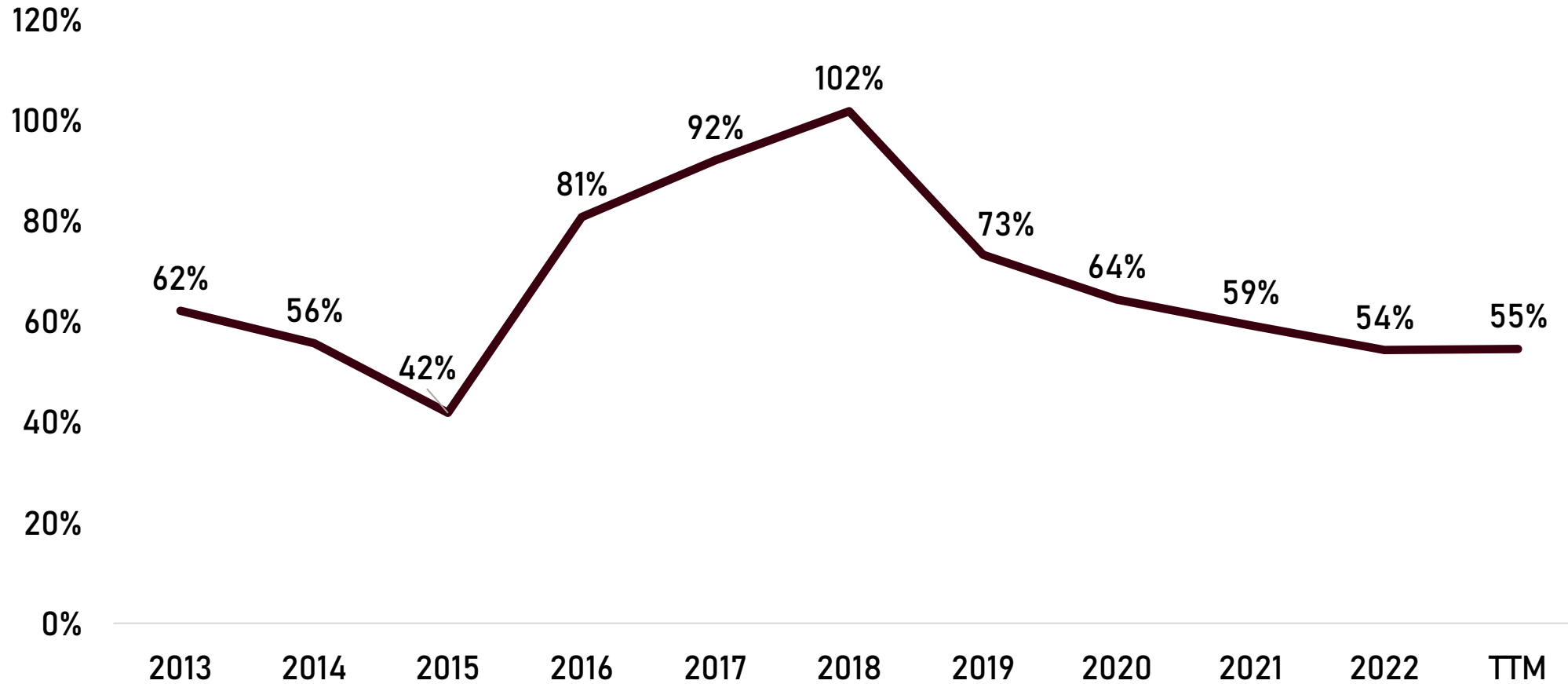
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Return on Equity



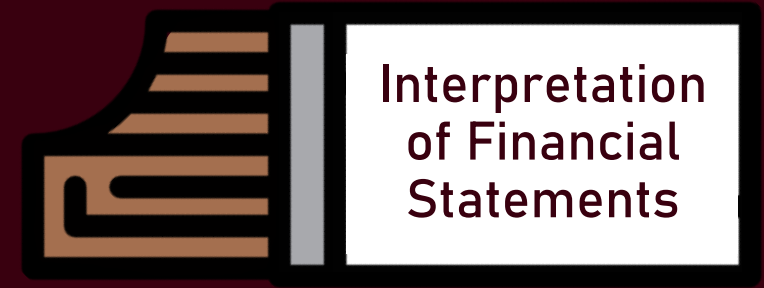
Above 15% Threshold



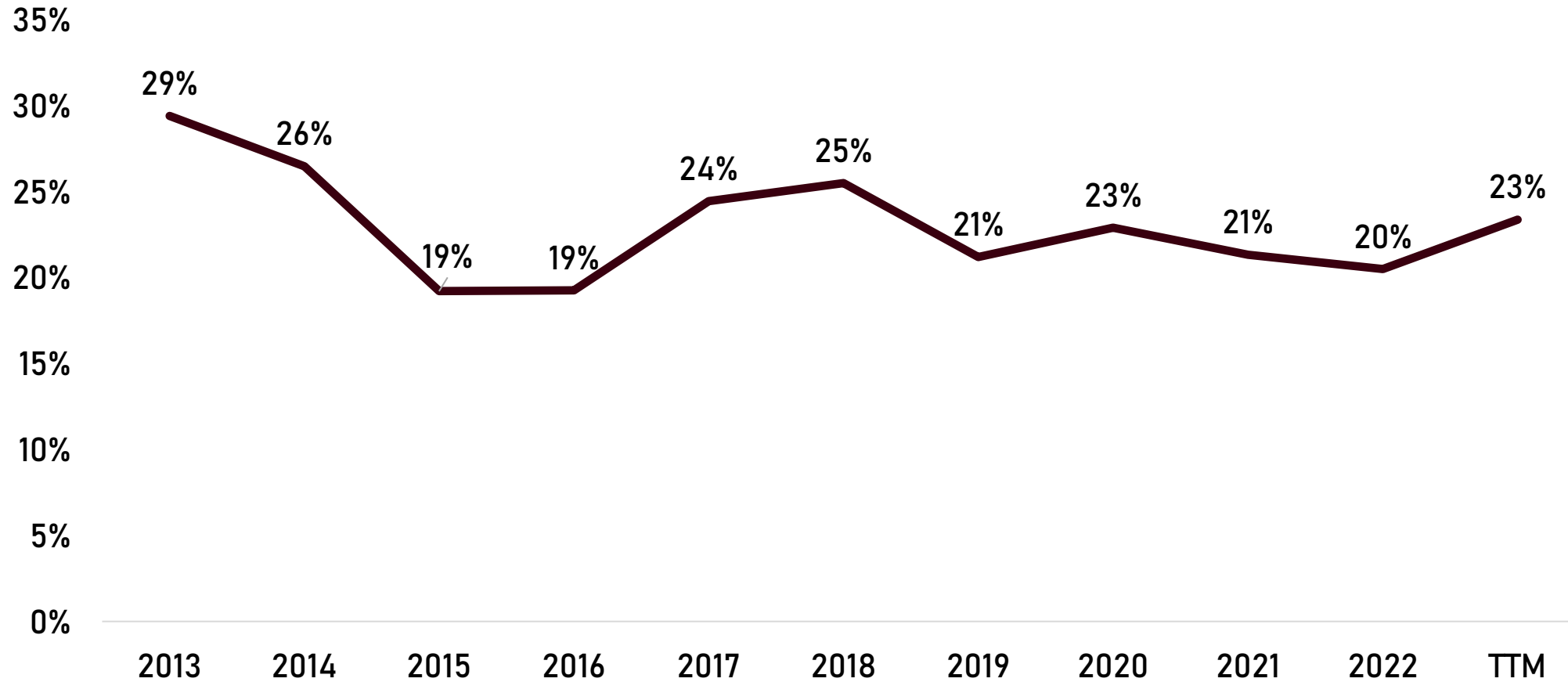
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Return on Invested Capital



Above 15% Threshold

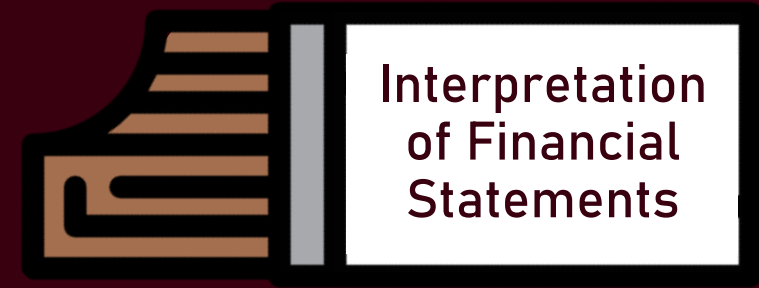


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Obligation Ratio

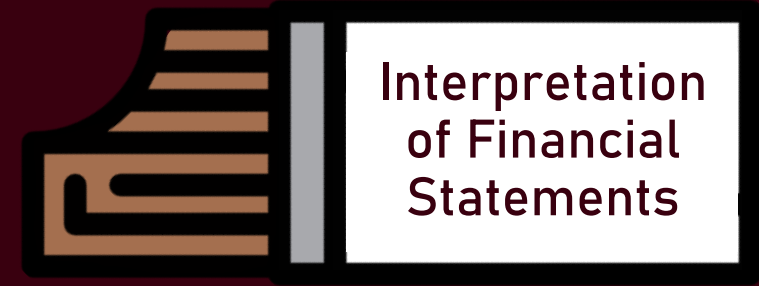
In Millions of USD



Obligation Ratio Calculations	
Short & Long Term Debt (+)	\$4841
Preferred Stock (+)	\$0
Pension Shortfall (+)	\$0
Leases*7 (+)	\$352
Cash (-)	\$471
Divide by Net Income	\$1909
Time to Pay Obligations =	2.47 Years < 5

Debt Maturity Schedule

In Thousands of USD



Year	Total
2023	750,000
2024	300,000
2025	600,000
2026	500,000
2027	193,639
> 5 years	1,700,000

THE HERSHEY COMPANY

Average Interest Rate:
3%

Most Due in 1 Year:
\$750 Mn

Economic Moat

Enrique Alvarado



Economic Moat



2

Intangible Assets

Cost Advantages

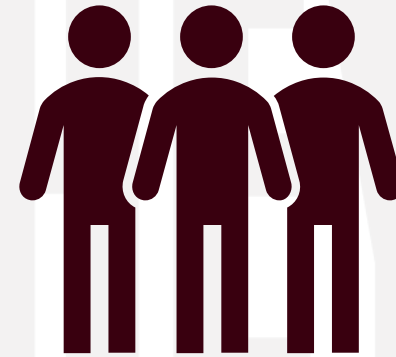
Intangible Assets



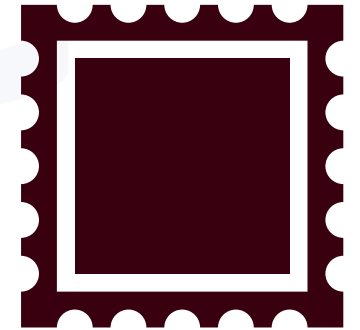
Brand Names



Shelf Space



Sticky/Loyal Customers



Patents

Brand Names

Economic
Moat

- Many very recognizable brand names
- Many of these brand names have a long history of constant success
- Imbedded into the consumers lifestyles



Shelf Space



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The Hershey Co.

Sticky/Loyal Customers



- Sticky customers are customers who continue to return to products due to convenience or value
- Loyal customers are customers who love a product so much they don't consider buying alternatives



Patents



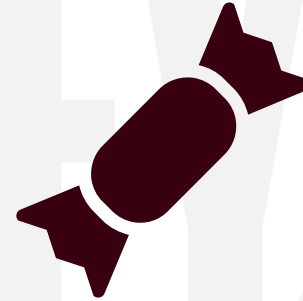
Hershey's has over 200 active patents



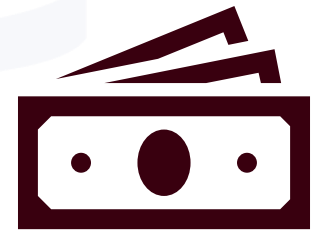
Manufacturing Methods



Shipping Methods



Products



Merchandising

Cost Advantages



Economies of Scale

- Increasing production while lowering costs
- Increased production levels & reduced costs per unit
- The larger volume of chocolate Hershey's produces, the cheaper the cost per bar

VOLUME

\$5 A bar

\$2 A bar

Cost Advantages



Precision Merchandising

- Increases sales & efficiency
- Decreases waste and distribution costs

Distribution Network

- 5 strategically placed distribution centers across North America



Growth Opportunities

William Errett



Product Innovation



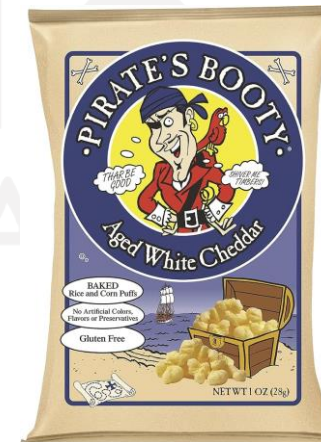
- Expanding current brands to include new innovative products
- Strengthens existing brands and drives new volumes



Brand Acquisition

Growth Opportunities

- Acquiring new and high potential brands
- Hershey's can acquire a small brand and produce their product at a very large scale and distribute it quickly across America



Distribution Efficiencies

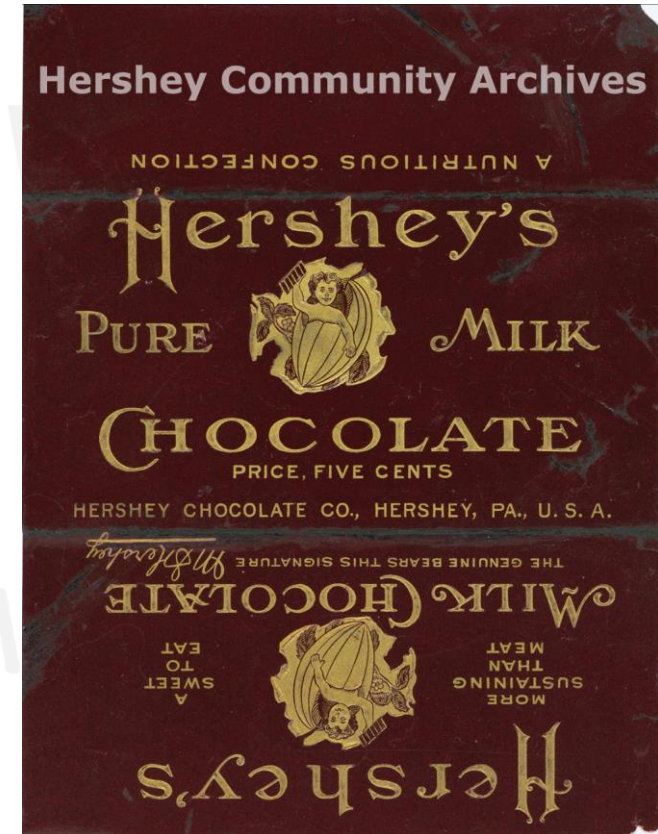


- As volumes continue to grow Hershey's can realize higher levels of operating leverage
- Higher volumes put positive pressure on their margins

Pricing Initiatives



- Consumers respond decently to price changes due to being sticky and loyal customers to Hershey's Brands
- Growth last quarter came 11.1% from price and -1.0% from volume and mix in North America Confectionary

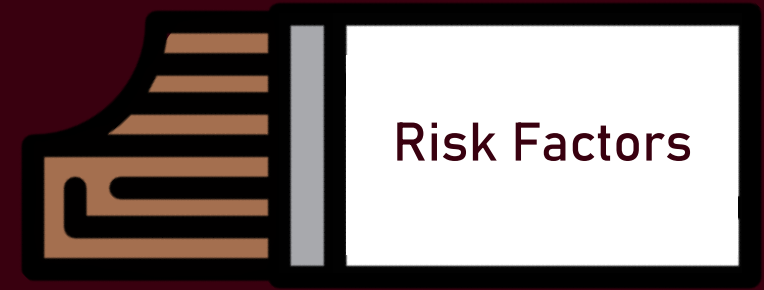


Risk Factors

William Errett



Risk Factors



Increased Input
Costs



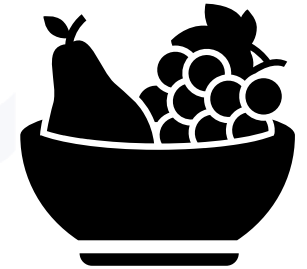
Failure to
Expand Abroad



Shopping
Trends



New Market
Entrants



Healthy
Lifestyles

Increased Input Costs



- Changes in input costs like cocoa can affect the costs of goods sold of Hershey's significantly
- Hershey's 10-Year Gross Margin shows how they are able to deal with commodity market fluctuations



Failure to Expand



Hershey's controlled 33.5% of the chocolate market in the U.S in 2021

Hershey's is not listed in the top 5 providers of chocolate in Europe

- Hershey's #1 product, milk chocolate, is a North American preference
- Milk Chocolate is not popular outside of North America, and this limits the company's growth opportunities

Shopping Trends

Risk Factors

- Hershey's benefits from the “impulse buying aisles” placed in grocery stores
- These aisles may be seeing lower volumes as people switch to more online shopping



New Market Entrants

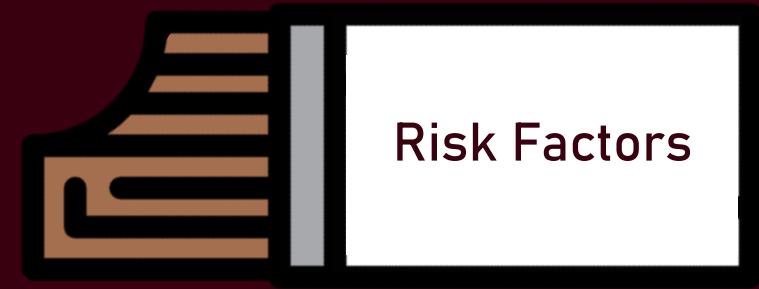


- Mr. Beast “Feastable” bars are the most recent and the most legitimate market entrant in history

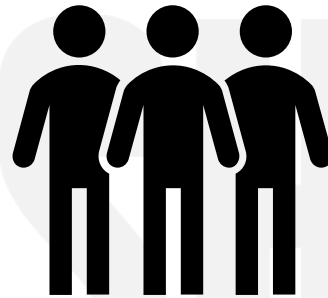
*Estimated \$300 Million in Sales
for the Year*

3.3% the size of Hershey's

New Market Entrants



- Ability to lose money



- Large following of customers



- Unwillingness to sell to large companies

There are few people in the world that fit this description and are interested in selling chocolate

Healthy Lifestyles



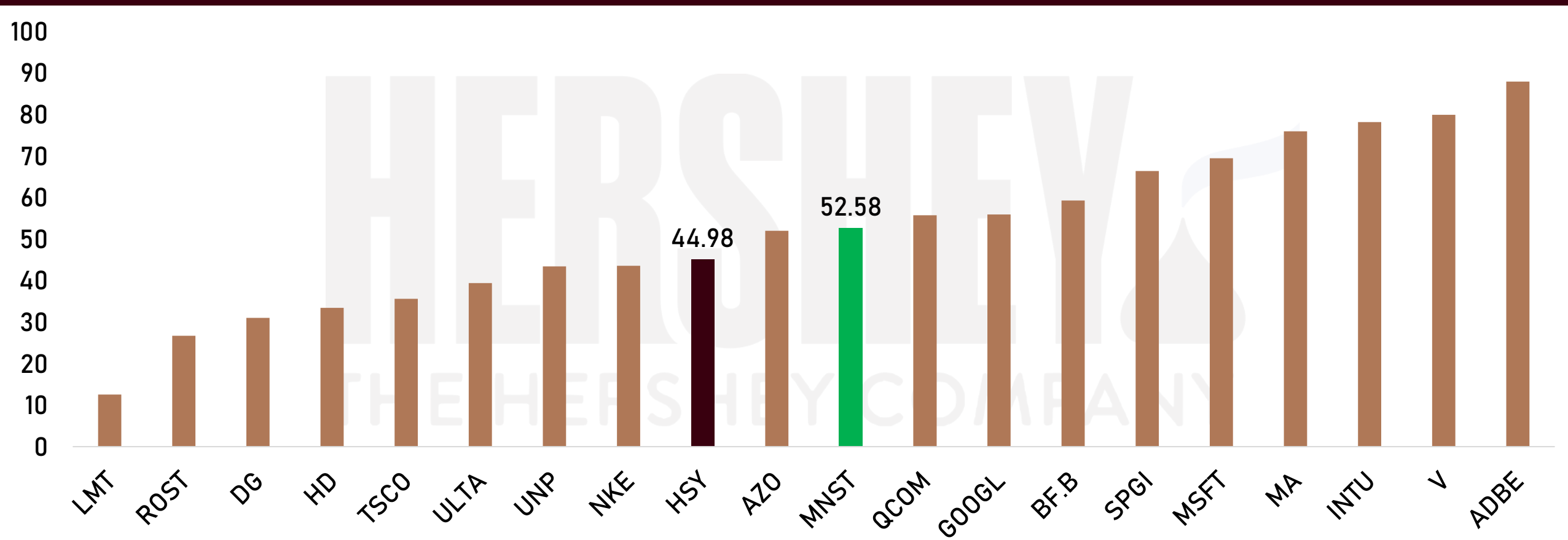
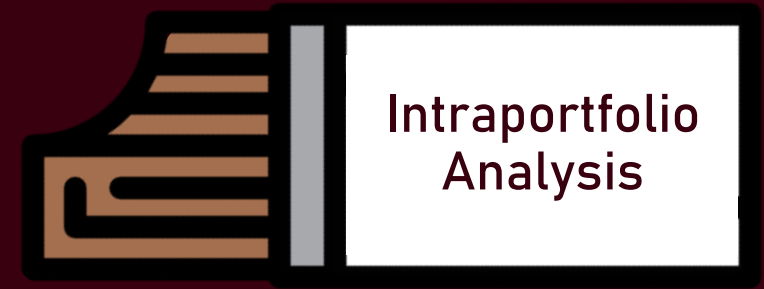
- Ozempic is a drug that is helping people pursue more healthy lifestyles and lose weight
- This has been seen as a threat to many products or services that are related to unhealthy lifestyles

Value Bands & Intraportfolio Analysis

William Errett



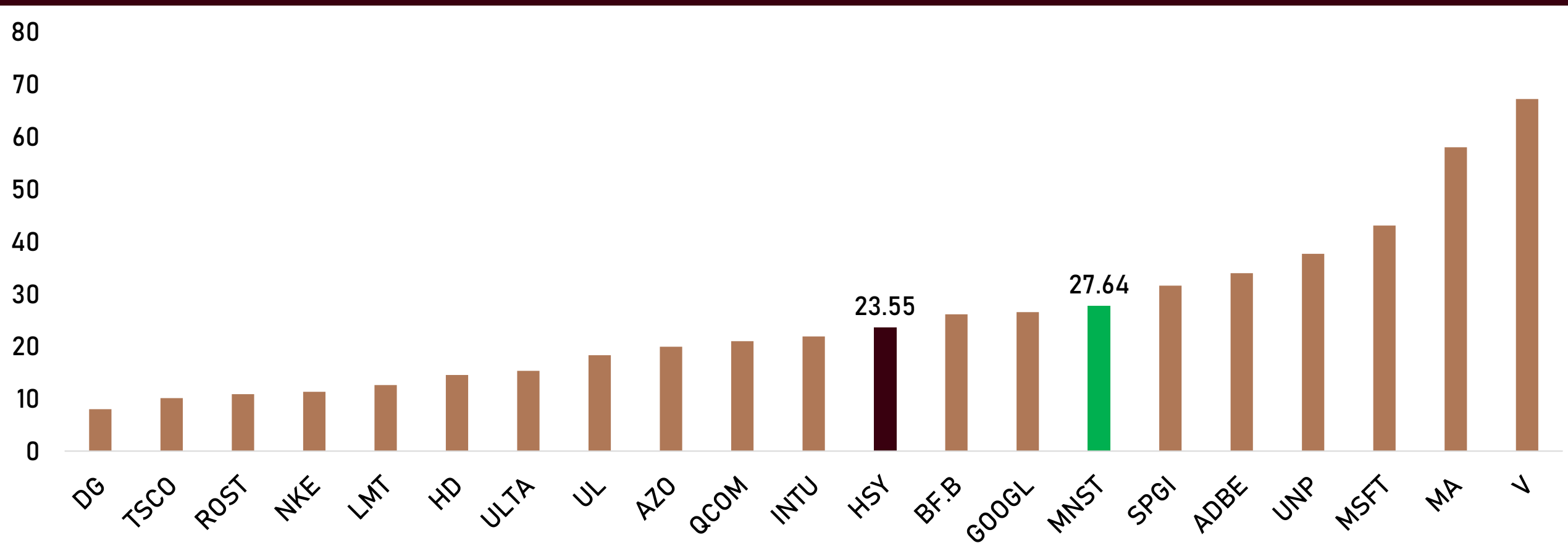
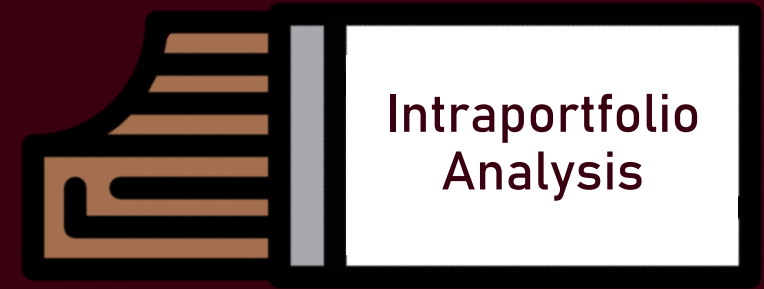
Gross Margin



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The Hershey Co.

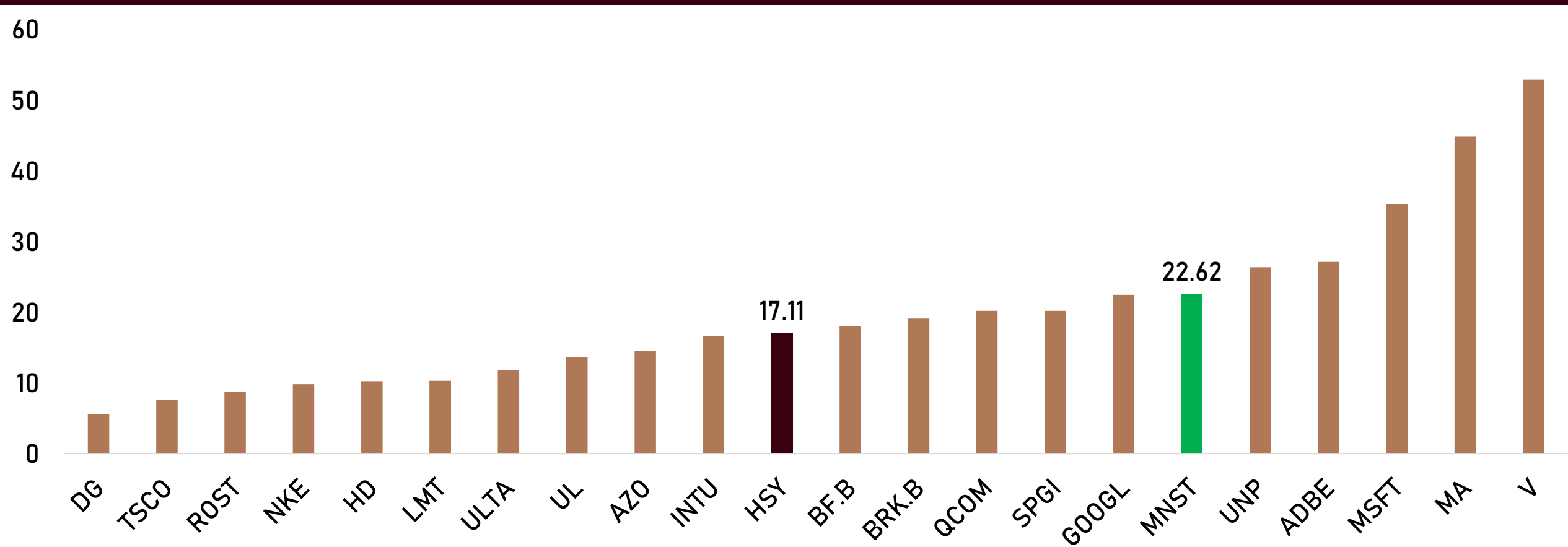
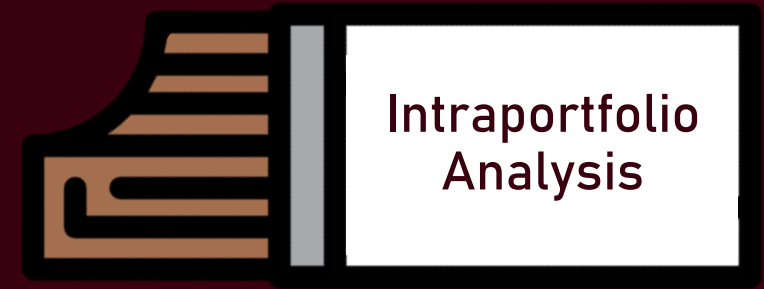
Operating Margin



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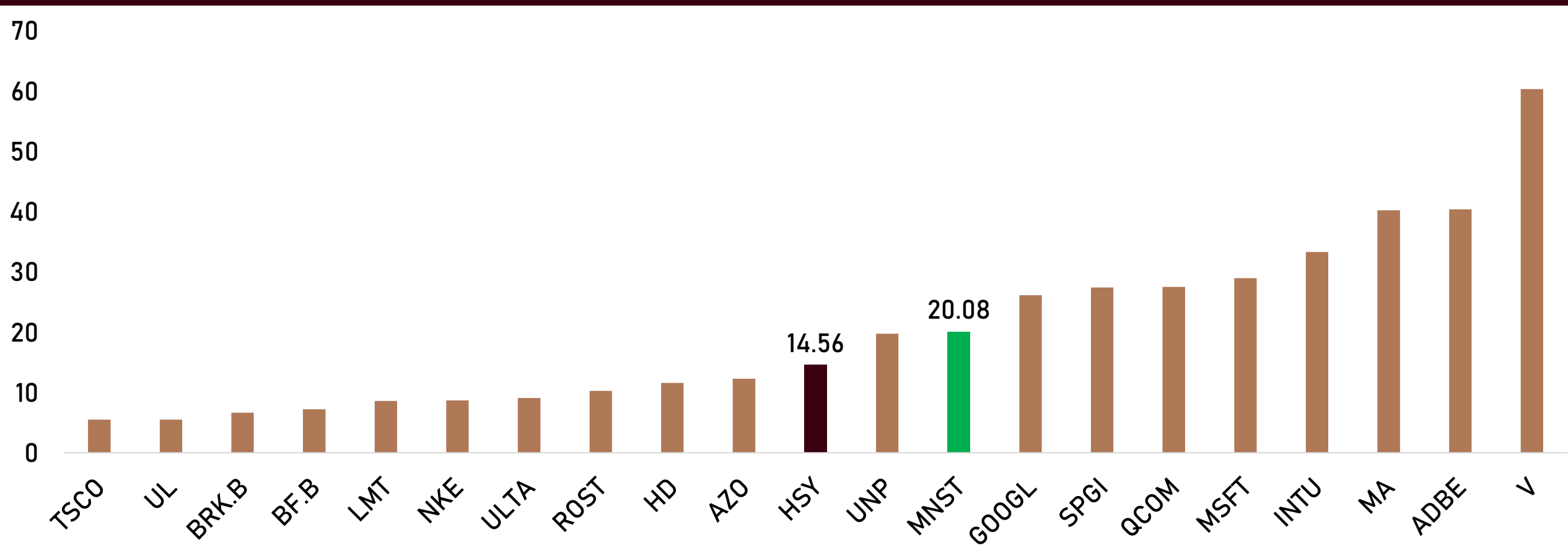
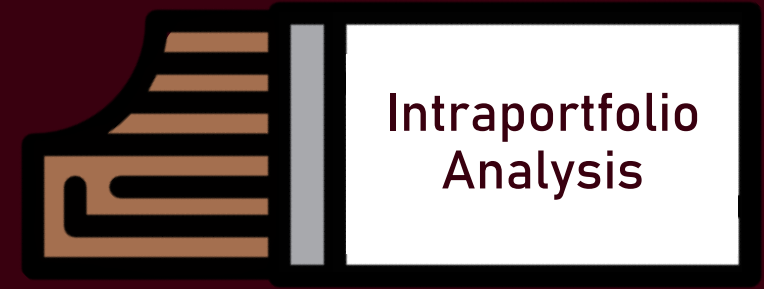
Net Margin



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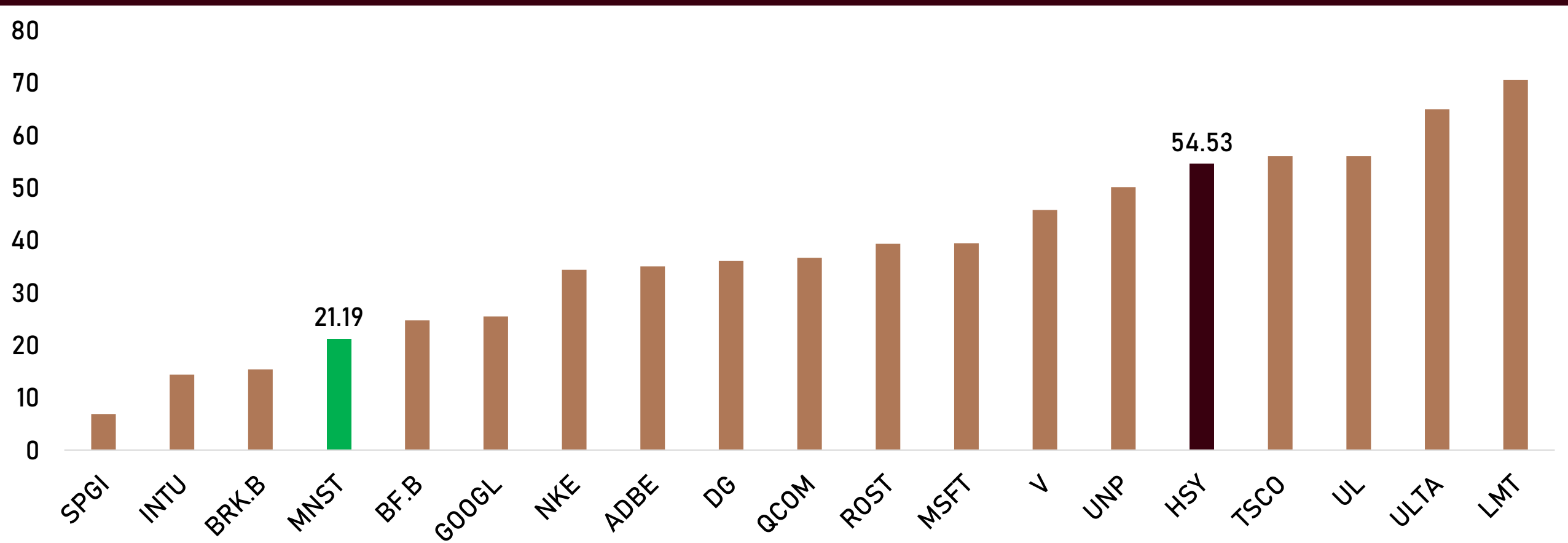
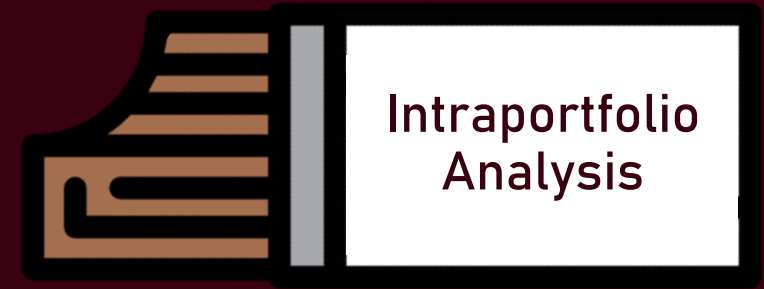
Free Cash Flow Margin



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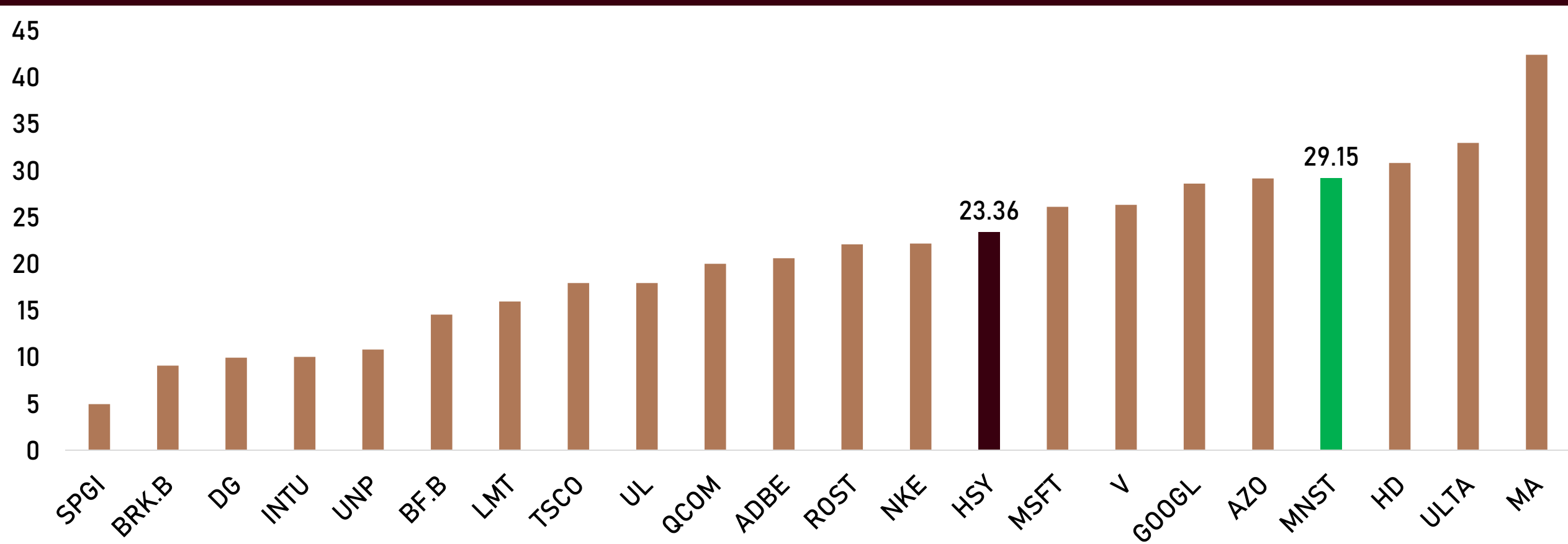
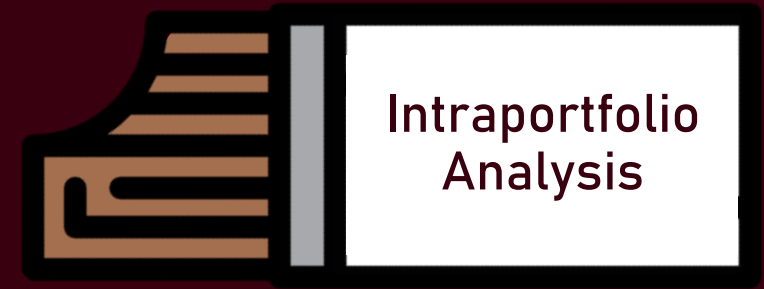
Return on Equity



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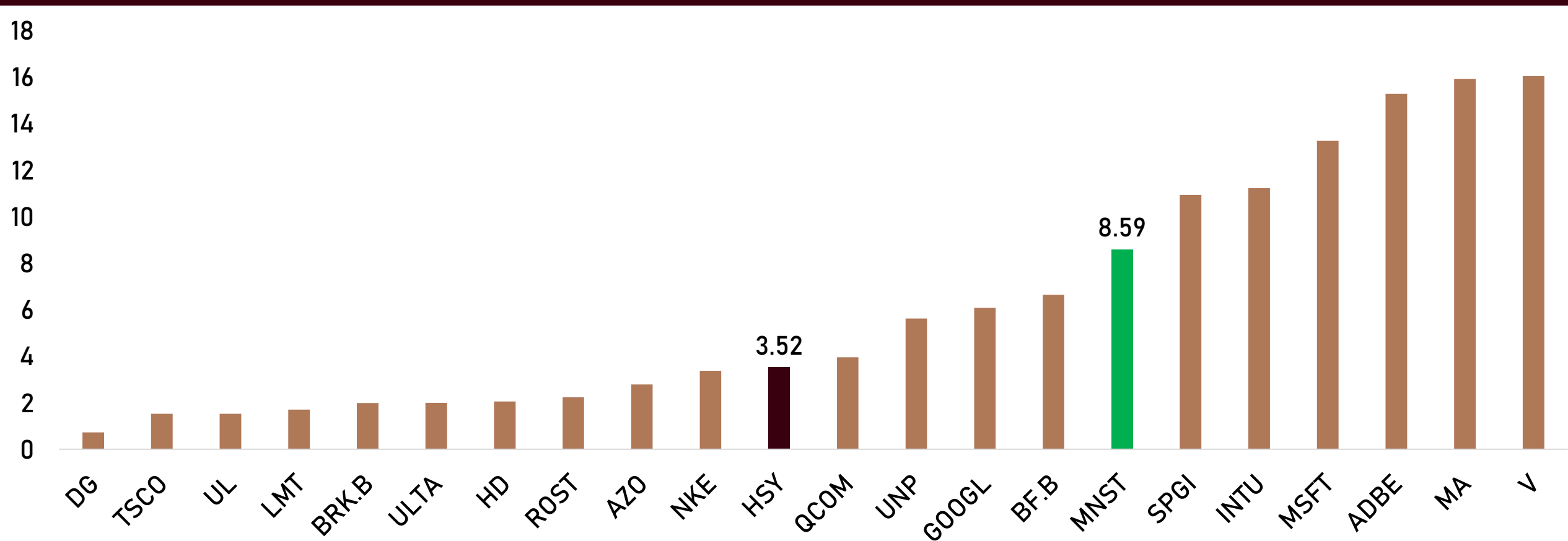
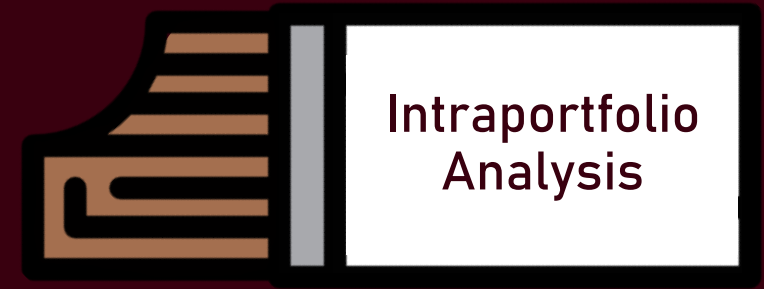
Return on Invested Capital



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The Hershey Co.

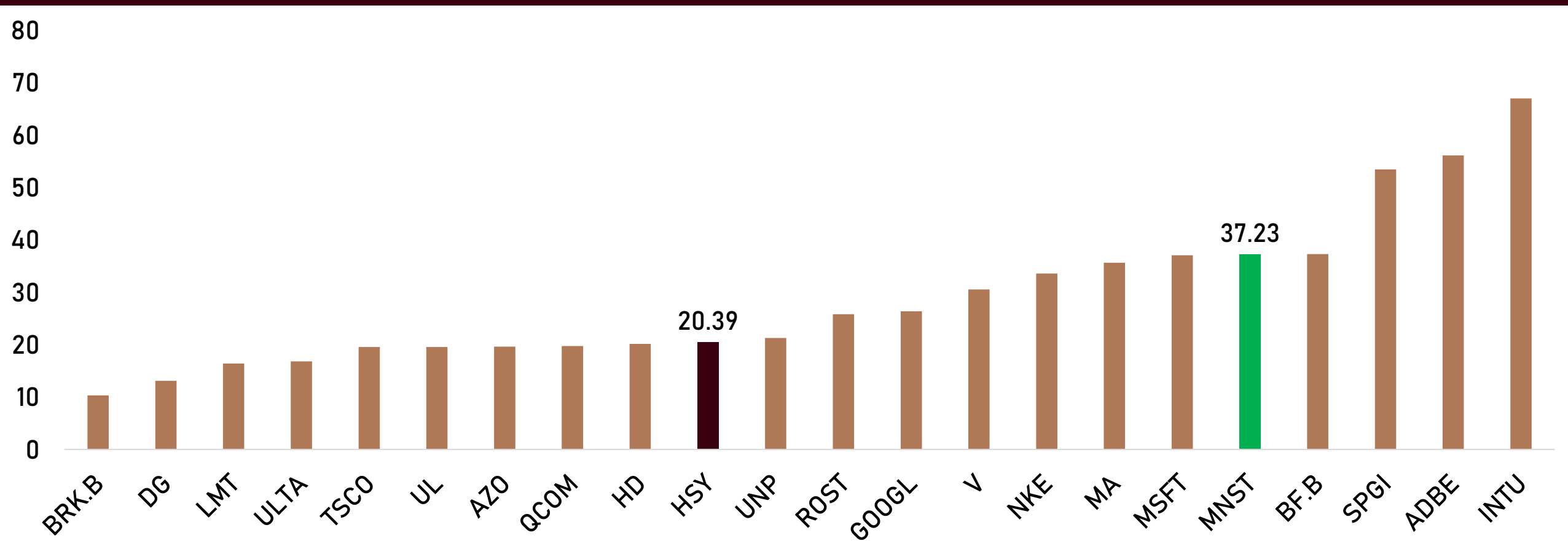
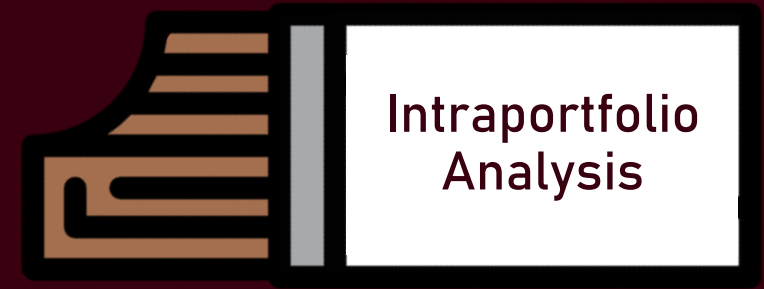
Price to Sales



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The Hershey Co.

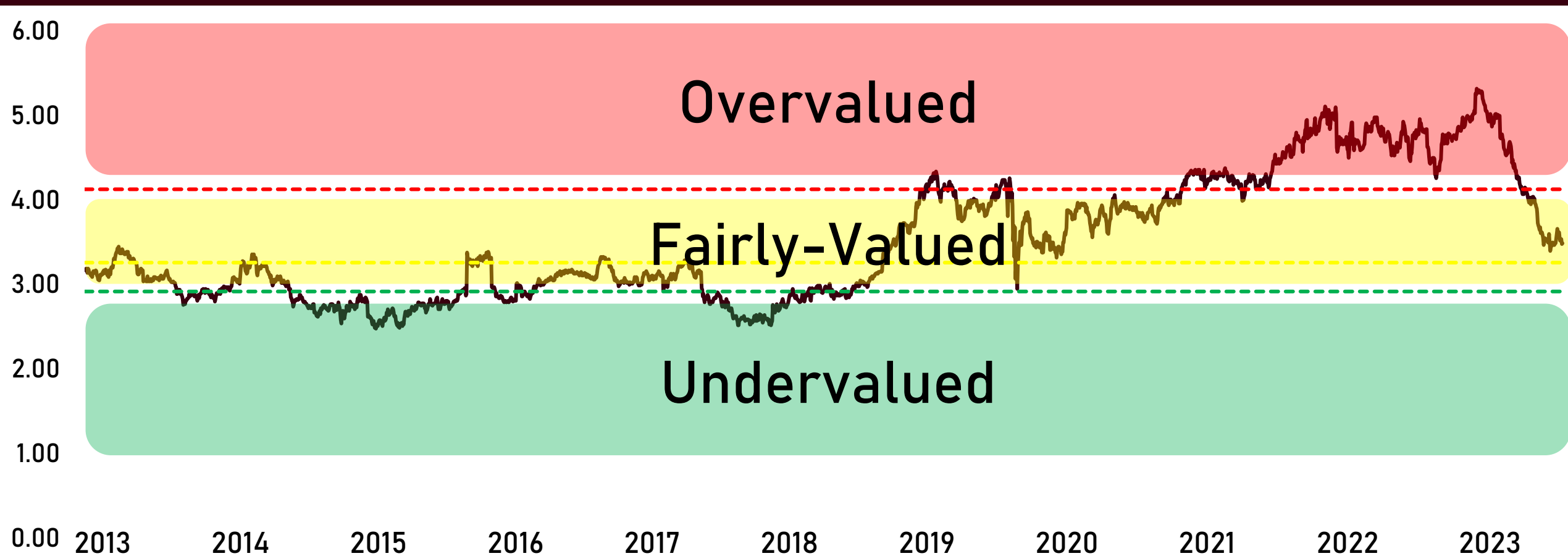
Price to Earnings



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The Hershey Co.

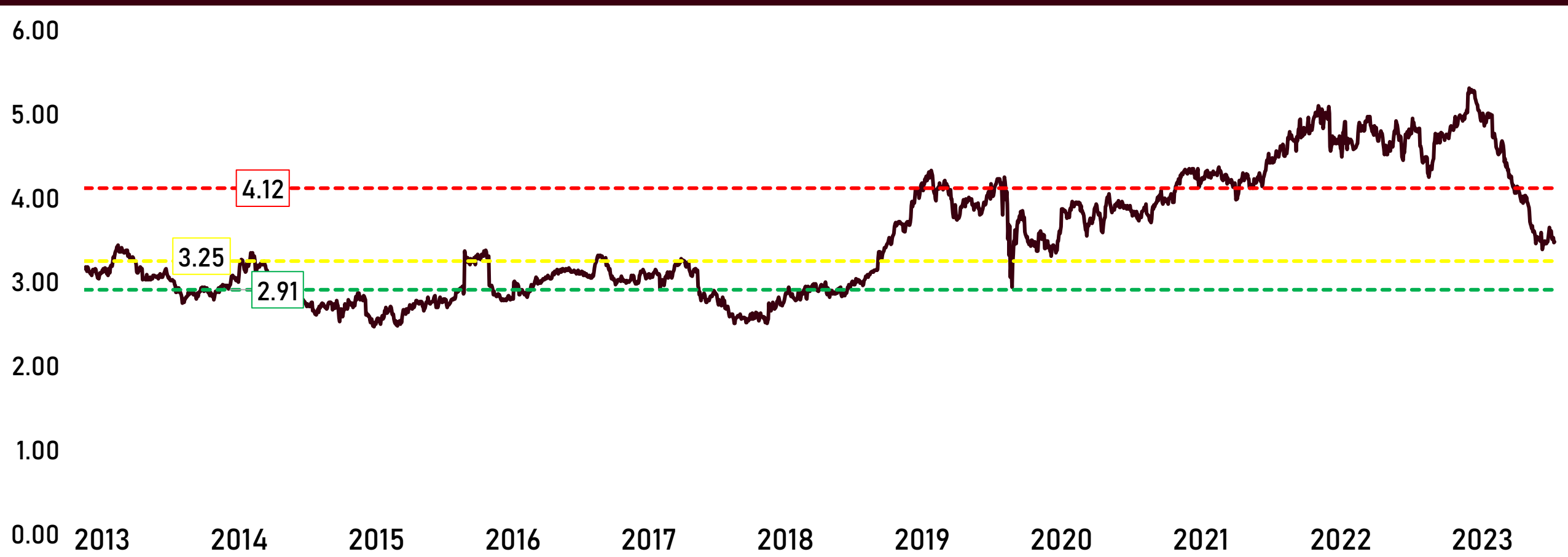
Price to Sales (Example)



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The Hershey Co.

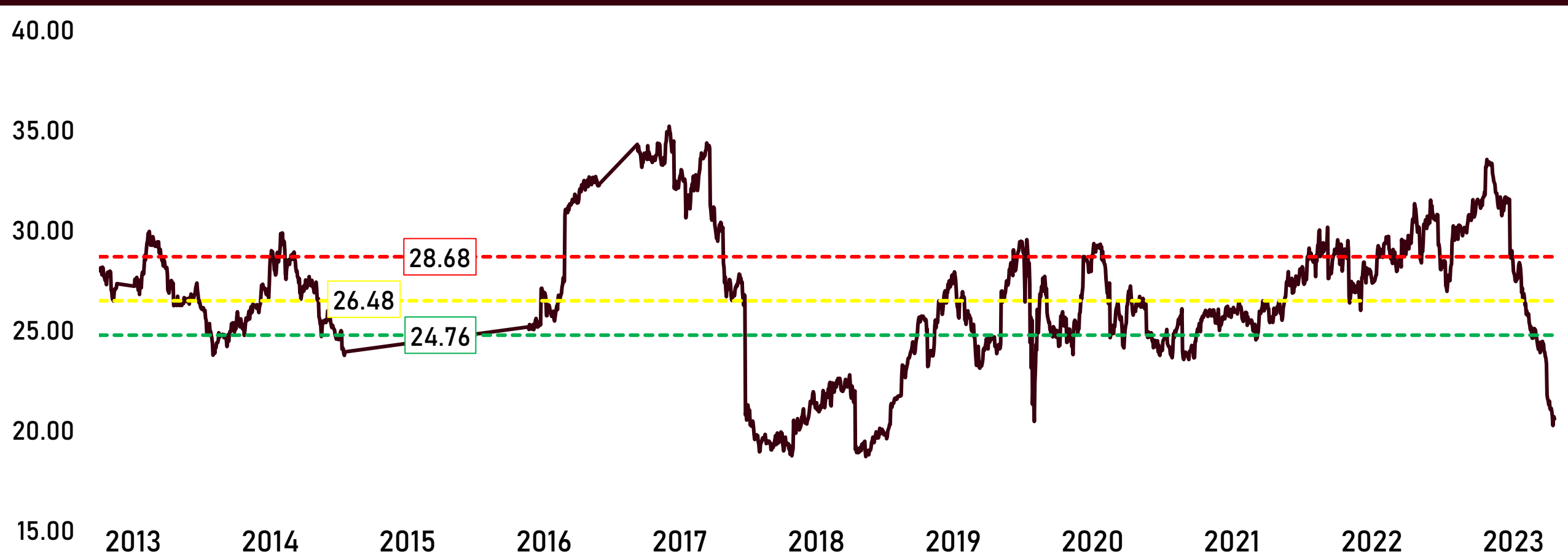
Price to Sales



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The Hershey Co.

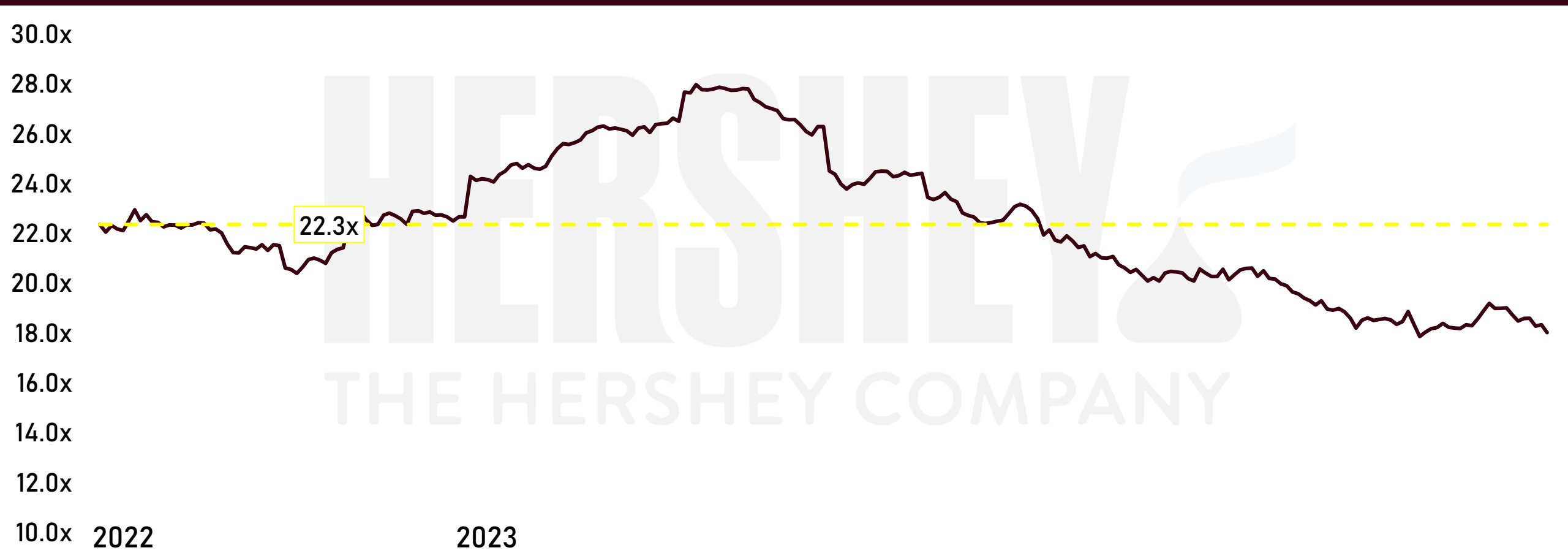
Price to Earnings



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The Hershey Co.

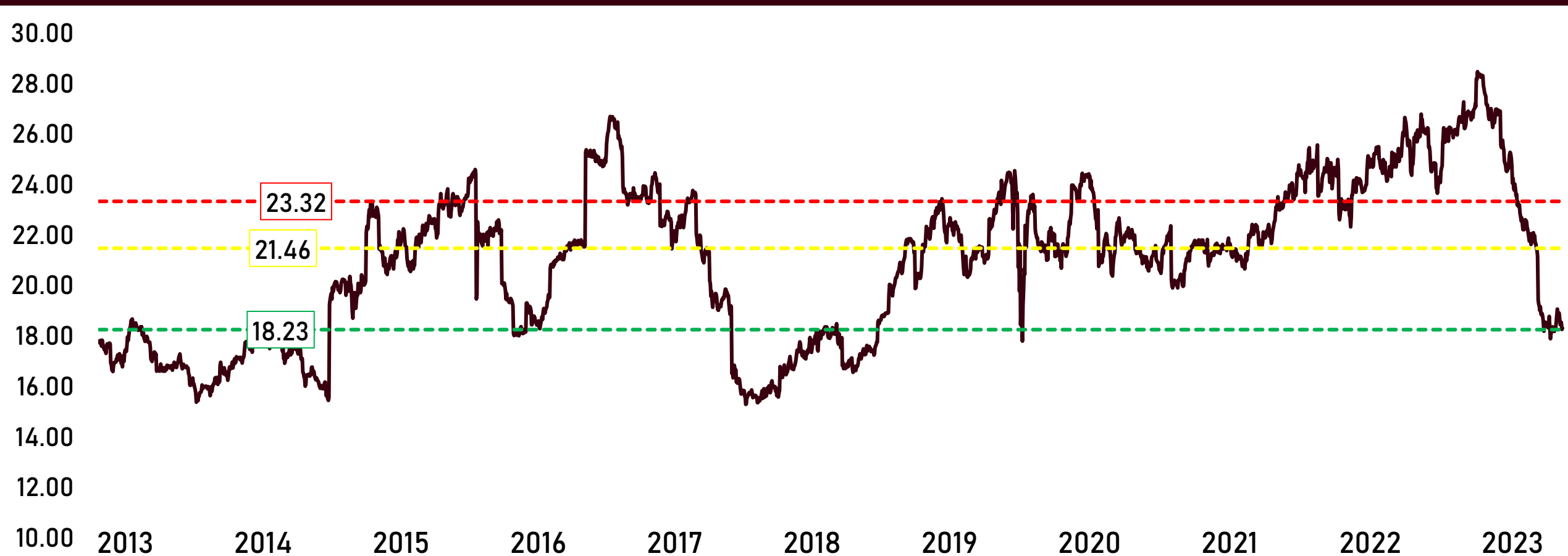
Forward Price to Earnings



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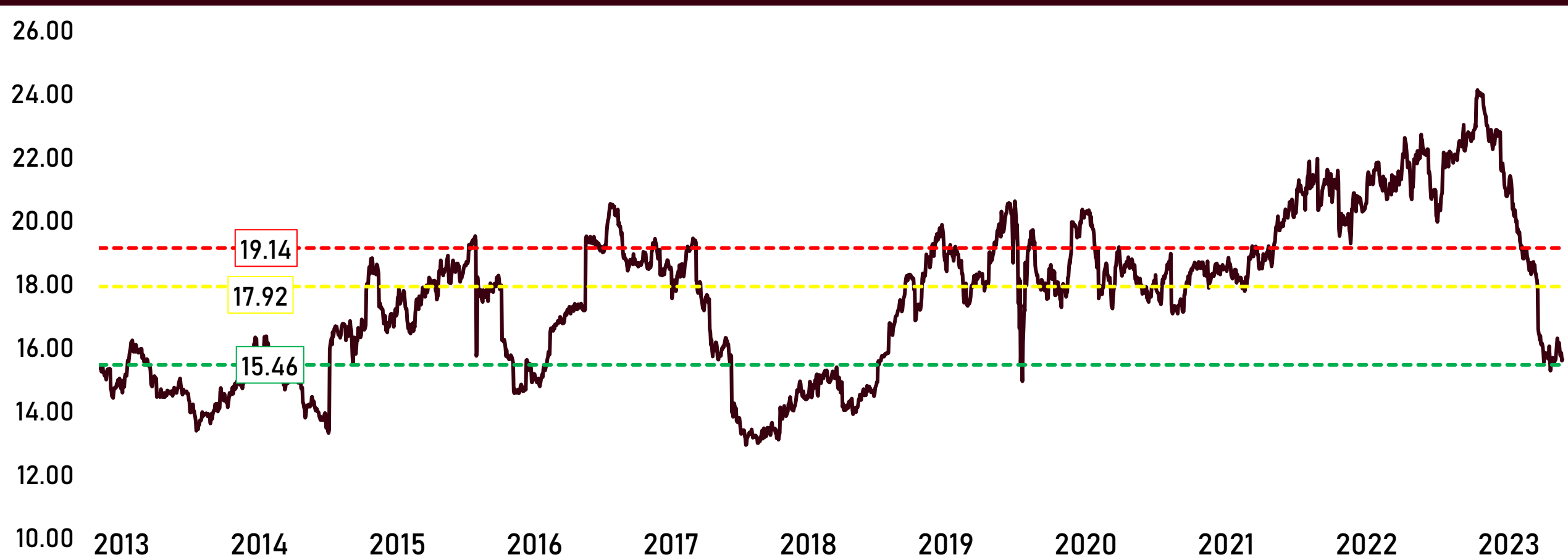
Enterprise Value to EBIT



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Enterprise Value to EBITDA



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Valuation & Conclusion

William Errett

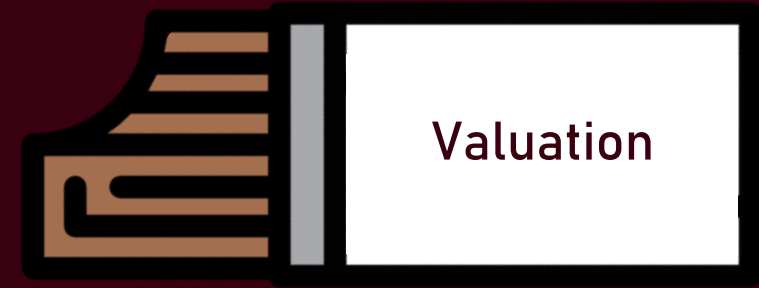


EPS Growth Rate Inputs



	Revenue	Net Margin	Share Repurchases	EPS Growth Rate
Bear	4.5%	-0.5%	0.5%	4.5%
Base	5.5%	0.0%	1.0%	6.5%
Bull	6.5%	0.5%	1.5%	8.5%

5-Year EPS Model



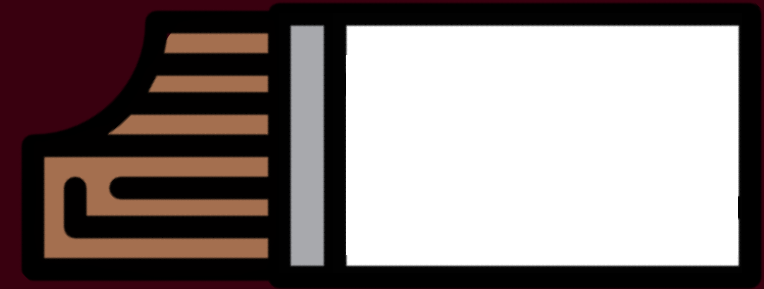
		5 Year Discounted Cash Flow					Total Return		Annual Return		
							P/E	Price	PV	5 YR Return	Annual Return
Bear	<u>Current</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	21.0x	\$ 270.54	\$ 171.50	44.0%	7.6%
	EPS	\$ 9.27	\$ 9.83	\$ 10.32	\$ 10.73	\$ 11.16	24.0x	\$ 305.36	\$ 193.12	62.5%	10.2%
			6.0%	5.0%	4.0%	4.0%	27.0x	\$ 340.18	\$ 214.74	81.0%	12.6%
Base	<u>Current</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	21.0x	\$ 296.37	\$ 187.67	57.7%	9.5%
	EPS	\$ 9.27	\$ 10.01	\$ 10.71	\$ 11.36	\$ 12.04	24.0x	\$ 334.65	\$ 211.44	78.1%	12.2%
			8.0%	7.0%	6.0%	6.0%	27.0x	\$ 372.92	\$ 235.21	98.4%	14.7%
Bull	<u>Current</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	21.0x	\$ 324.17	\$ 205.08	72.5%	11.5%
	EPS	\$ 9.27	\$ 10.20	\$ 11.11	\$ 12.00	\$ 12.96	24.0x	\$ 366.17	\$ 231.16	94.9%	14.3%
			10.0%	9.0%	8.0%	8.0%	27.0x	\$ 408.18	\$ 257.24	117.2%	16.8%

Discount rate:
10%

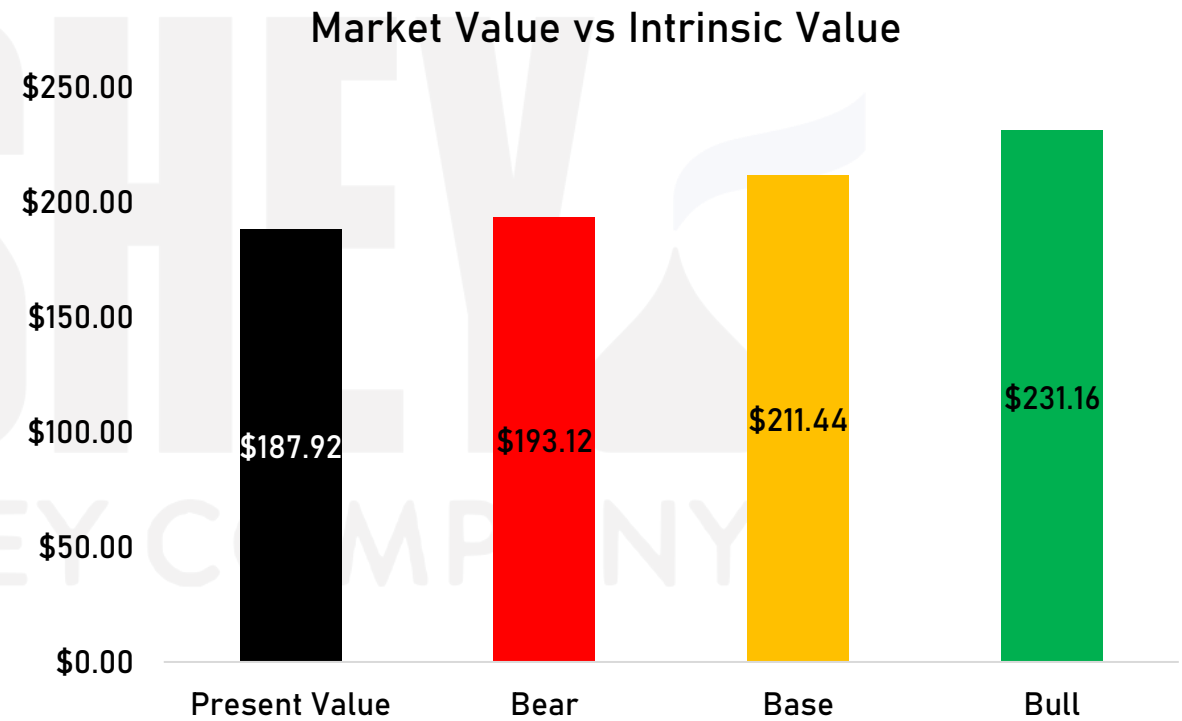
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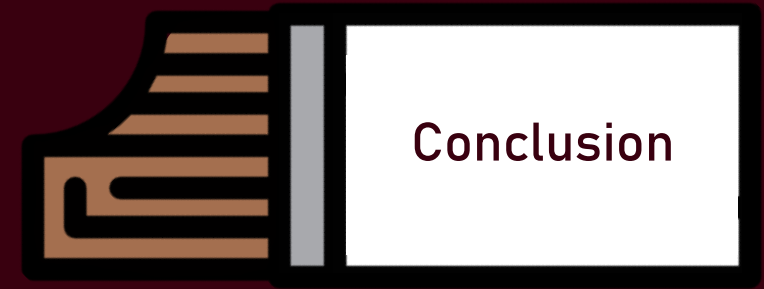
Expected Rate of Return



Total RoR Sensitivity				
P/E		Est. EPS growth rate		
		4.6%	6.6%	8.6%
21.0x	7.6%	9.5%	11.5%	
24.0x	10.2%	12.2%	14.3%	
27.0x	12.6%	14.7%	16.8%	



The Hershey Co.



- Establish roughly a 3% position in the portfolio with just under \$50,000
- Purchase 250 Shares at the current Market Price via Limit Order



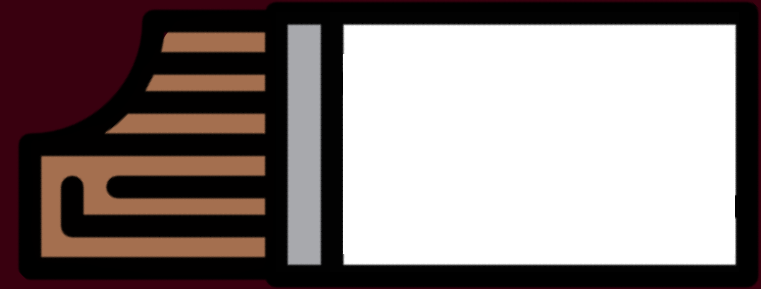
Question & Answer Session



Appendix

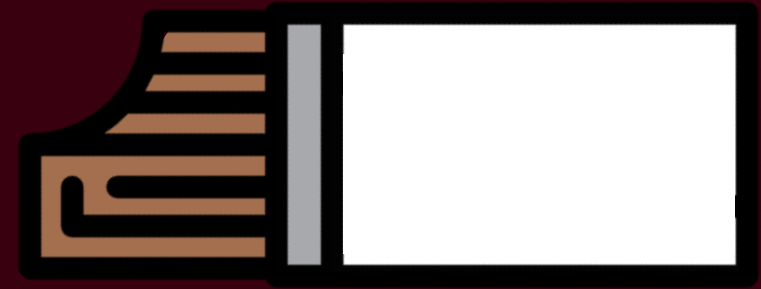


Refinancing



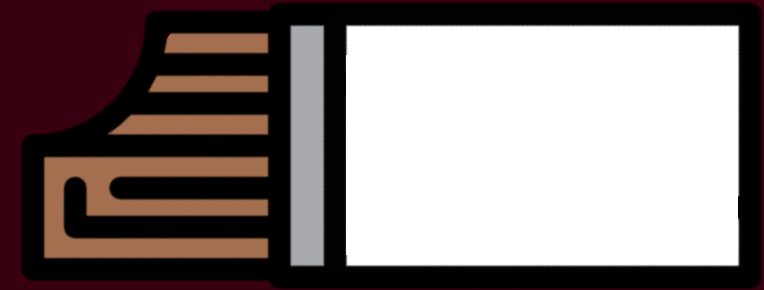
- *The Hershey Company Announces Pricing Of \$350,000,000 4.250% Notes Due 2028 And \$400,000,000 4.500% Notes Due 2033*
- Acquisition and Integration-Related Activities: we incurred costs related to the integration of the 2021 acquisitions of Lily's, Dot's and Pretzels. During the 12-month period of 2021, we incurred costs to effectuate the acquisitions of Lily's, Dot's and Pretzels
- In October 2018, the acquisition of Pirate Brands, which includes the Pirate's Booty, Smart Puffs and Original Tings brands, from B&G Foods, Inc

Acquisitions



- Acquisition and Integration-Related Activities: we incurred costs related to the integration of the 2021 acquisitions of Lily's, Dot's and Pretzels. During the 12-month period of 2021, we incurred costs to effectuate the acquisitions of Lily's, Dot's and Pretzels
- In October 2018, the acquisition of Pirate Brands, which includes the Pirate's Booty, Smart Puffs and Original Tings brands, from B&G Foods, Inc

Competitor Tab Analysis Table

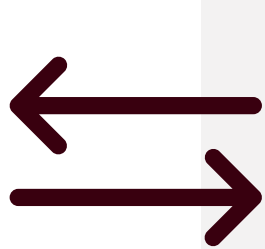


Companies	Revenue	Gross Margin	Operating Margin	Net Margin	Free Cash Flow	Return On Equity	Return On Invested Capital	Obligation Ratio
Hersheys	\$11,160.00	44.98%	23.55%	17.11%	\$1,625.00	54.53%	23.70%	2.29
Nestle SA	\$104,238.00	45.26%	16.84%	10.16%	\$8,552.00	23.67%	10.26%	-0.38
Lindt & Sprugli	\$5,513.00	66.93%	16.03%	12.52%	\$498.00	14.51%	9.85%	0.84
Mondelez International	\$35,397.00	37.77%	15.10%	12.97%	\$3,477.00	16.53%	5.72%	4.00

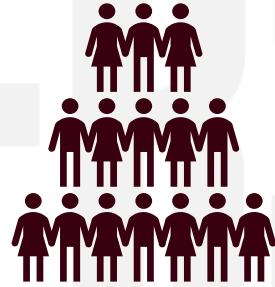
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The Hershey Co.

Types of Economic Moats



Switching Costs



Network Effect



Cost Advantages



Intangible Assets

International Operations



Operations and Manufacture

Mexico

Brazil

India

Malaysia



Confectionary Products

Asia

Latin
America

Middle East

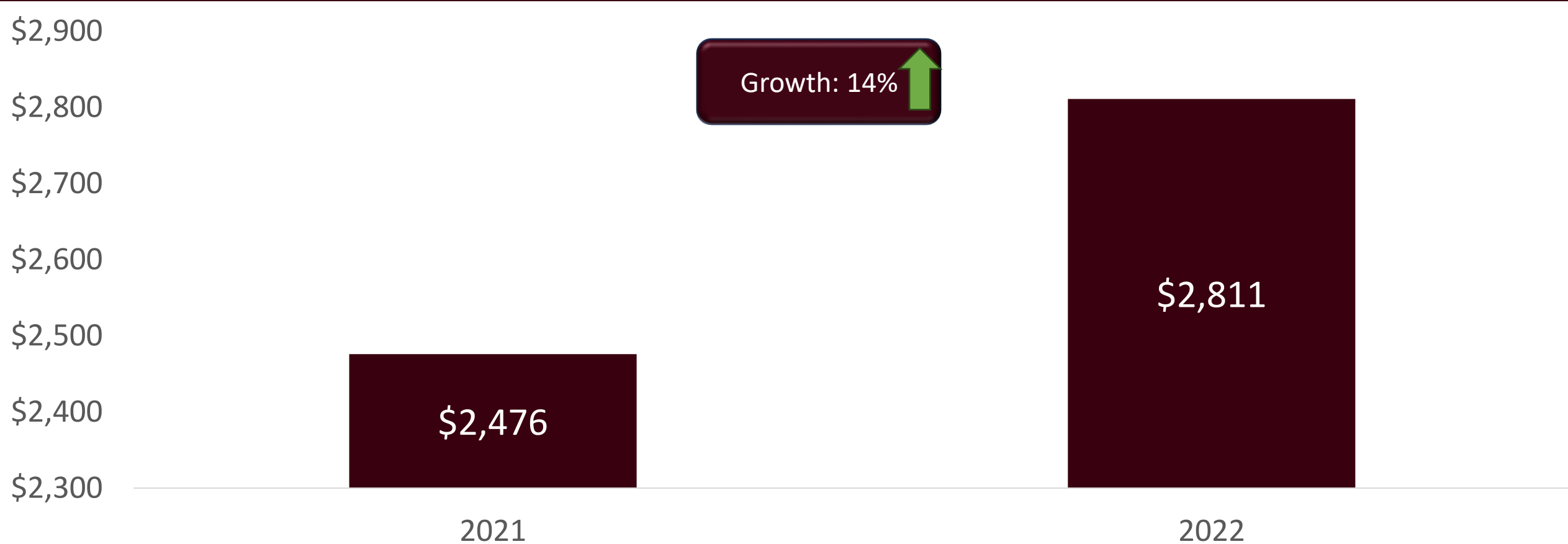
Europe

Africa

Confect. Segment Income

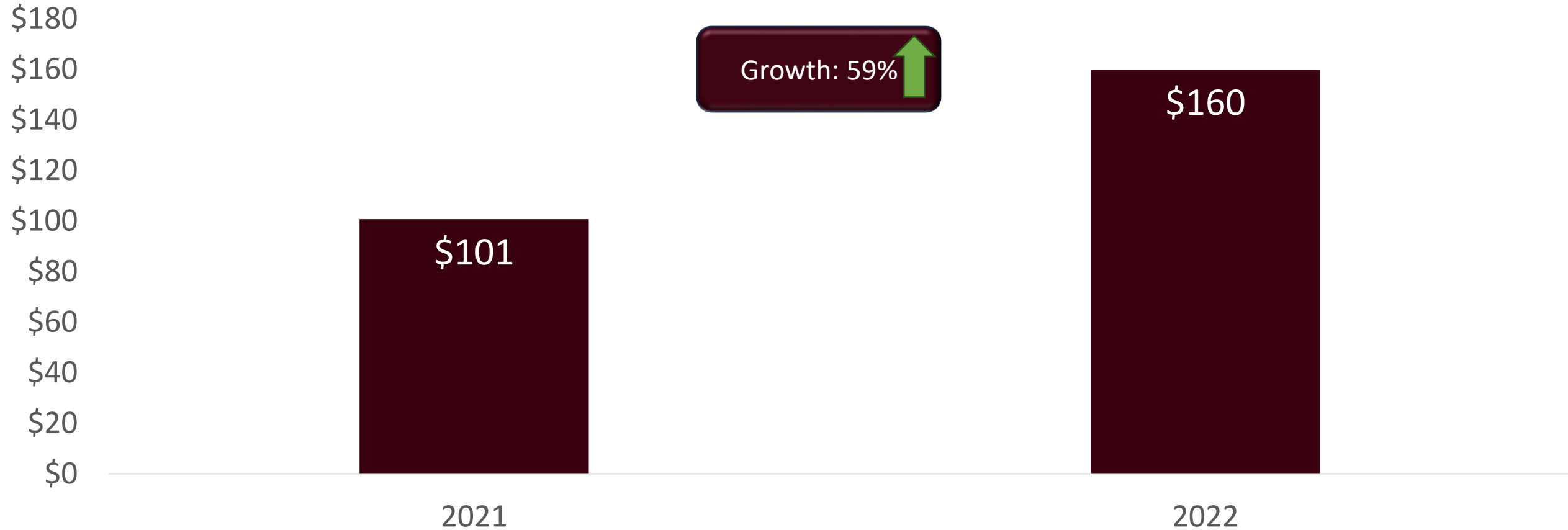


*Amount In Millions



Salty Snacks Segment Income

*Amount In Millions



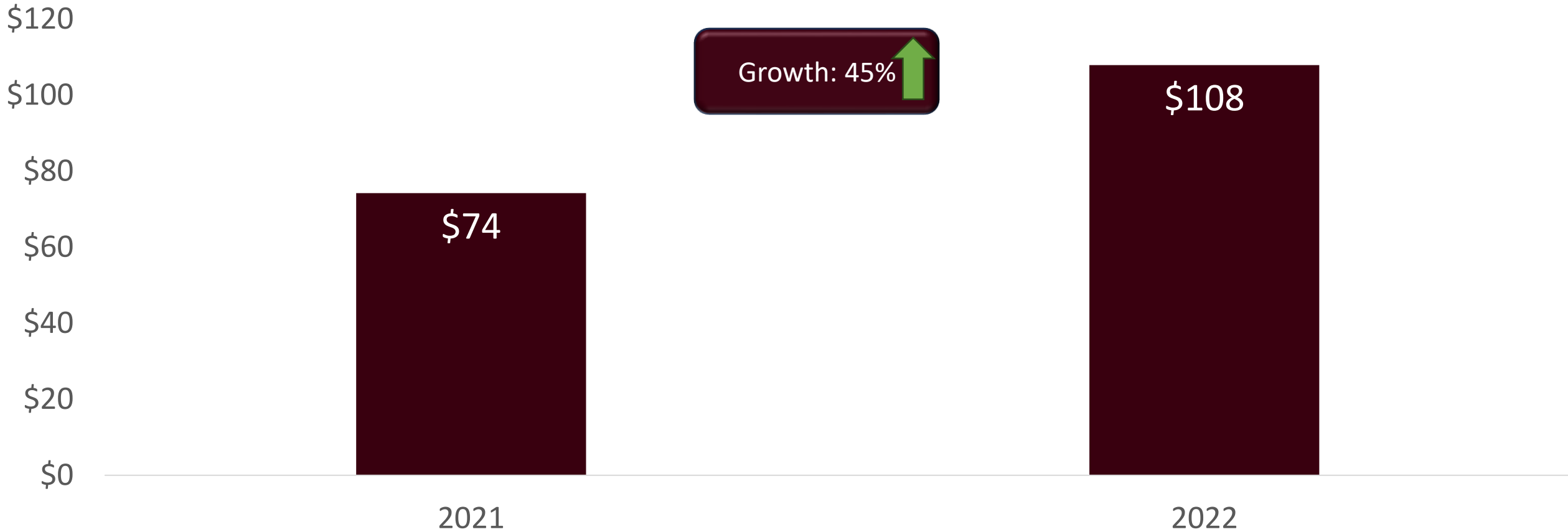
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International Segment Income



*Amount In Millions



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