Hershey Reports Second-quarter 2020 Financial Results; Provides 2020 Business Update

HERSHEY, Pa., July 23, 2020 (GLOBE NEWSWIRE) -- The Hershey Company (NYSE: HSY) today announced net sales and earnings for the second quarter ended June 28, 2020.

Second-Quarter 2020 Financial Results Summary[1]

- Consolidated net sales of $1,707.3 million, a decrease of 3.4%.
- Organic, constant currency net sales decreased 3.5%.
- The net impact of acquisitions and divestitures on net sales was a 0.8 point benefit, while foreign currency exchange was a 0.7 point headwind.
- Reported net income of $268.9 million, or $1.29 per share-diluted, a decrease of 12.8%.
- Adjusted earnings per share-diluted of $1.31, flat versus the same period a year ago.

[1] *All comparisons for the second quarter of 2020 are with respect to the second quarter ended June 30, 2019*

“We delivered profitable sales growth in North America in the second quarter despite the increased complexities presented by the COVID-19 pandemic. Our iconic brands and great execution enabled us to gain 225 basis points of confectionery market share. In addition, strong cost management enabled us to offset many of the COVID-19 related financial pressures and deliver adjusted earnings per share in line with last year,” said Michele Buck, The Hershey Company President and Chief Executive Officer. “I could not be prouder of how the company focused its time and resources on our employees’ physical, emotional and economic well-being while serving the needs of our customers, consumers and communities during this difficult time. We are encouraged by the improvements in our business performance and the momentum we have exiting the second quarter. We believe our great brands, advantaged margin structure, strong supply chain, and agile investment mindset will enable us to deliver solid stockholder returns going forward.”

2020 Full-Year Financial Outlook Summary

The operating environment continues to evolve, and the company’s performance improved over the course of the second quarter. The impact of recent spikes in coronavirus cases on consumer mobility, retail operations, government regulations, and the macroeconomic environment, however, remains unclear. As a result, the company is not providing new fiscal 2020 guidance at this time.

The company does expect accelerated sales growth in the second half of the year based on momentum exiting the second quarter, assuming no significant disruption to current consumer trends. The company also expects pricing and cost management to drive margin expansion in the second half of the year. We remain confident that our healthy balance sheet and strong cash flow will enable us to meet current business needs, invest for the future and return cash to stockholders.

In the North America segment, the company expects stronger second half sales growth driven by continued elevated at-home consumption, price realization, the replenishment of retailer and distributor inventory levels, and recovering sales in food service and specialty retail channels. The company does not currently expect seasonal performance to have a material effect on second half financial results, though the ramifications of a resurgence of COVID-19 cases on consumer participation in seasonal activities and the resulting retail impact remains uncertain.

In the International and Other segment, the company expects a slower recovery given current travel, retail, government and macroeconomic trends. Sales trends are expected to improve versus the second quarter; however, will fall short in the second half versus the prior year by double digits.

The company expects:

- An adjusted effective tax rate of approximately 16 to 17 percent; and
- Total cash returns to stockholders of approximately $800 million, comprised of dividends of approximately $650 million and share repurchases of $150 million completed earlier this year.

In addition, the company now expects foreign currency exchange to be a 70 basis point headwind on full year net revenue based on current exchange rates.

The company reaffirms its long-term financial objectives and capital allocation priorities remain unchanged.

Second-Quarter 2020 Results
Consolidated net sales were $1,707.3 million in the second quarter of 2020 versus $1,767.2 million in the year ago period, a decrease of 3.4%. Volume was a 7.0 point headwind, driven by COVID-19 pressures in the company's International and Other segment and price elasticity in North America. Foreign currency exchange was a 0.7 point headwind. Price realization partially offset these declines, providing 3.5 points of net benefit for the second quarter. The net impact of acquisitions and divestitures was a 0.8 point benefit driven by the acquisition of ONE Brands.

The company's second-quarter 2020 results, as prepared in accordance with U.S. generally accepted accounting principles (GAAP), included items positively impacting comparability of $3.8 million, or $0.02 per share-diluted, as outlined in the table below. For the second quarter of 2019, items negatively impacting comparability totaled $39.7 million, or $0.17 per share-diluted.

Reported gross margin was 46.4% in the second quarter of 2020, compared to 49.5% in the second quarter of 2019, a decrease of 310 basis points. The decline reflects a higher derivative mark-to-market commodity gain in the prior period. Adjusted gross margin was 46.4% in the second quarter of 2020, compared to 46.5% in the second quarter of 2019, a decrease of 10 basis points as price realization gains were more than offset by incremental COVID-19 manufacturing costs and unfavorable mix.

Selling, marketing and administrative expenses decreased 9.9% in the second quarter of 2020 versus the second quarter of 2019 driven by media cost efficiencies and brand investment optimization related to COVID-19. Advertising and related consumer marketing expenses decreased 14.0% in the second quarter of 2020 versus the same period last year driven by media cost efficiencies and select brand investment optimization related to COVID-19 sales trends. Selling, marketing and administrative expenses, excluding advertising and related consumer marketing, decreased 7.6% versus the second quarter of 2019. This decrease was driven by savings in travel and meeting expenses due to COVID-19 related travel restrictions and lower incentive compensation costs.

Second-quarter 2020 reported operating profit of $383.4 million decreased 6.5% versus the second quarter of 2019, resulting in an operating profit margin of 22.5%, a decrease of 70 basis points. This decrease was driven by lower gross profit due to the previously mentioned higher derivative mark-to-market commodity gain in the prior period. Adjusted operating profit of $386.1 million increased 4.4% versus the second quarter of 2019. This resulted in an adjusted operating profit margin of 22.6%, an increase of 170 basis points versus the second quarter of 2019 as strong corporate and operational cost management more than offset incremental COVID-19 costs.

The effective tax rate in the second quarter of 2020 was 19.8%, an increase of 610 basis points versus the second quarter of 2019. The adjusted tax rate in the second quarter of 2020 was 19.4%, an increase of 460 basis points versus the second quarter of 2019. Both the effective and adjusted tax rate increases were driven by a prior year benefit recognized in conjunction with valuation allowance releases in select international markets.

The following table presents a summary of items impacting comparability in each period (see Appendix I for additional information):

	Pre-Tax (millions)		**Earnings Per Share-Diluted**	
	Three Months Ended		**Three Months Ended**	
	June 28, 2020	**June 30, 2019**	**June 28, 2020**	**June 30, 2019**
Derivative Mark-to-Market Losses (Gains)	$ 0.5	$ (53.5)	$ —	$ (0.25)
Business Realignment Activities	1.3	6.4	0.01	0.03
Acquisition-Related Activities	(0.6)	2.3	—	0.01
Pension Settlement Charges Relating to Company-Directed Initiatives	1.9	—	0.01	—
Long-Lived Asset Impairment Charges	1.6	4.7	—	0.02
Noncontrolling Interest Share of Business Realignment and Impairment Charges	(0.9)	0.4	(0.01)	—
Tax effect of all adjustments reflected above	—	—	0.01	0.02
	$ 3.8	$ (39.7)	$ 0.02	$ (0.17)

The following are comments about segment performance for the second quarter of 2020 versus the year-ago period. 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 net sales were $1,583.8 million in the second quarter of 2020, an increase of 1.0% versus the same period last year. Price realization was a 4.2 point benefit and the net impact of acquisitions and divestitures was a 0.8 point benefit. Volume and foreign currency exchange were a 3.8 point and 0.2 point headwind, respectively.

Total Hershey U.S. retail takeaway for the 12 weeks ended June 28, 2020[4] in the expanded multi-outlet combined plus convenience store channels (IRI MULO + C-Stores) increased 4.1% versus the prior-year period. Hershey's U.S. candy, mint and gum retail takeaway increased 3.2%, resulting in a category market share gain of 225 basis points. Sales for Hershey's baking items, including peanut butter, syrup, chips, and cocoa grew 41%, contributing a point to the company's overall U.S. retail takeaway.

Gross margin expanded 20 basis points as strong net price realization more than offset incremental COVID-19 manufacturing costs and unfavorable mix. North America advertising and related consumer marketing expenses decreased by 10.8% in the second quarter of 2020 versus the same period last year driven by media cost efficiencies and brand investment optimization related to COVID-19. These gross margin gains and prudent cost management resulted in a segment income increase of 5.7% to $497.6 million in the second quarter of 2020, compared to $470.9 million in the second quarter of 2019.

4 *Includes candy, mint, gum, salty snacks, and grocery items*

International and Other

Second-quarter 2020 net sales for Hershey's International and Other segment decreased 38.0% versus the same period last year to $123.5 million. Constant currency net sales declined 33.4%, excluding a 4.6 point headwind from foreign currency exchange rates. Volume was a 31.3 point headwind, as consumer mobility and economic security as well as retail operations were significantly impacted by COVID-19. Price realization was also a headwind, further contributing 2.1 points to the decline for the quarter. The closure of the company's owned retail locations for the quarter, as well as large declines in air travel further negatively impacted overall segment results. Combined net sales in the company's strategic focus markets (Mexico, Brazil, India and China) decreased approximately 42.9%. Excluding an 11.1 point headwind from foreign currency exchange rates, combined organic constant currency net sales in Mexico, Brazil, India and China declined approximately 31.8%.

The International and Other segment reported a $4.0 million loss in the second quarter of 2020, reflecting a 118.3% decrease versus the prior period. Profit declines were driven by the COVID-19 related sales declines, which were partially offset by marketing and overhead cost optimization.

A reconciliation between reported net sales growth rates and (i) constant currency net sales growth rates and (ii) organic constant currency net sales growth rates is provided below:

	Three Months Ended June 28, 2020				
	Percentage Change as Reported	**Impact of Foreign Currency Exchange**	**Percentage Change on Constant Currency Basis**	**Impact of Acquisitions and Divestitures**	**Percentage Change on Organic Constant Currency Basis**
Mexico	(54.5)%	(10.2)%	(44.3)%	— %	(44.3)%
Brazil	(38.8)%	(22.8)%	(16.0)%	— %	(16.0)%
India	(26.4)%	(6.0)%	(20.4)%	— %	(20.4)%
China	(31.2)%	(2.6)%	(28.6)%	— %	(28.6)%
Total Strategic Focus Markets	(42.9)%	(11.1)%	(31.8)%	— %	(31.8)%

Unallocated Corporate Expense

Hershey's unallocated corporate expense in the second quarter of 2020 was $107.5 million, a decrease of $15.4 million, or 12.5% versus the same period of 2019. This decrease was driven by savings in travel and meeting expenses related to COVID-19 travel restrictions and lower incentive compensation costs.