



The Hershey Company (HSY)

Updated February 27th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$189	5 Year CAGR Estimate:	8.0%	Market Cap:	\$40 B
Fair Value Price:	\$193	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/16/24
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	3/15/24
Dividend Yield:	2.9%	5 Year Price Target	\$246	Years Of Dividend Growth:	15
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

The Hershey Company, founded in 1894, is a chocolate and sugar confectionary products manufacturer that sells major brands such as Hershey's, Reese's, Kisses, Cadbury, Ice Breakers, Kit Kat, Almond Joy, Jolly Rancher, Twizzlers, Heath, and Milk Duds. Hershey primarily operates in North America but has international operations as well. The company is headquartered in Hershey, PA, and trades with a market capitalization of \$40 billion.

On December 14th, 2021, Hershey completed the acquisition of Dot's Pretzels.

On February 1st, 2022, Hershey announced it was changing its reportable segments to North America Confectionery, North America Salty Snacks, and International.

On February 7th, 2024, Hershey declared a \$1.37 quarterly dividend, marking a 15% increase.

On February 8th, 2024, Hershey reported financial results for the fourth quarter of fiscal 2023. The North America Confectionary segment (84% of sales) grew its sales 2% over the prior year's quarter, as price hikes of 7% more than offset a -5% decline in volumes. However, North America Salty Snacks incurred a -25% decline in sales. As a result, Hershey posted flat sales and flat earnings-per-share of \$2.02.

Hershey provided lackluster guidance for 2024, as it expects a strong headwind from exceptionally high prices of cocoa and sugar. It expects 2%-3% sales growth and flat adjusted earnings-per-share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.98	\$4.12	\$4.41	\$4.76	\$5.36	\$5.78	\$6.29	\$7.19	\$8.52	\$9.59	\$9.65	\$12.32
DPS	\$2.04	\$2.24	\$2.40	\$2.55	\$2.76	\$2.99	\$3.15	\$3.41	\$3.87	\$4.46	\$5.48	\$6.99
Shares¹	221	217	212	211	210	209	209	207	206	205	204	200

Hershey has recorded both strong and consistent growth over the last decade, with earnings-per-share growing every year since 2008. The company has grown its earnings-per-share by 10.3% per year on average over the last decade.

Hershey's earnings-per-share growth stems from several factors. The first one is organic revenue growth, which Hershey has managed to achieve despite the public becoming more conscious about healthy eating habits. The company has also been able to improve its margins throughout the last decade. Hershey owns well-recognized brands, so price hikes have not been a headwind to increasing the volume of its products. Hershey had also been moderately repurchasing its shares, which has added some additional growth to the company's earnings-per-share. In 2018, Hershey's earnings-per-share growth was above the long-term average, but that was primarily thanks to the effect of a lower tax rate and the effect of the Amplify acquisition, which was responsible for most of the company's revenue growth.

The COVID-19 pandemic tested all businesses, but Hershey is set up well for nearly any environment. On the other hand, we prefer to be somewhat conservative in our growth assumptions and thus we have assumed 5% average annual growth of earnings-per-share beyond this year.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	24.5	23.0	21.9	22.8	18.8	23.2	23.4	23.8	27.5	23.7	19.6	20.0
Avg. Yld.	2.1%	2.4%	2.5%	2.3%	2.7%	2.2%	2.2%	2.0%	1.8%	2.0%	2.9%	2.8%

During the past decade, shares of Hershey have traded hands with an average P/E ratio of 23.3. While we believe a premium multiple is warranted, we are a bit more cautious – using 20 times earnings as a starting place – given the reduced growth expectations. The stock is now trading at a P/E ratio of 19.6. If it trades at a P/E ratio of 20.0 in five years, it will enjoy a 0.4% annualized valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	51%	54%	54%	54%	51%	52%	50%	47%	45%	47%	57%	57%

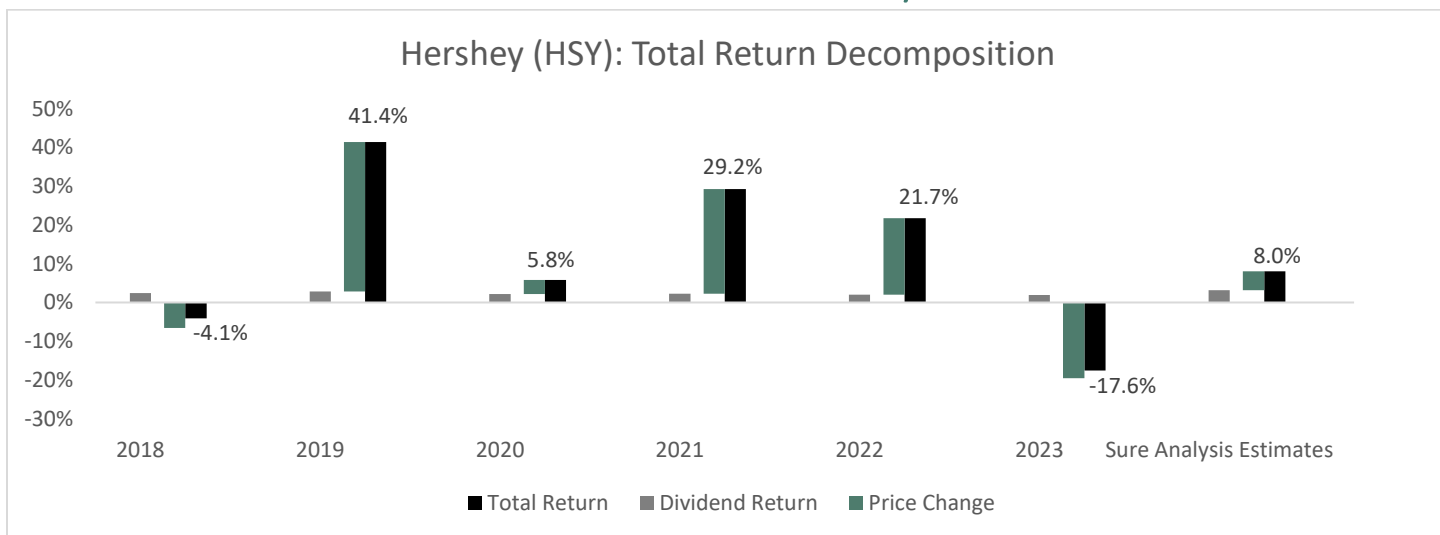
Hershey's dividend payout ratio has moved in a very narrow range throughout the last decade. The company has paid around half of its net profits in the form of dividends throughout this period. The stability of the payout ratio even during the last financial crisis, coupled with the fact that the payout ratio is not overly high on an absolute basis, makes us believe that Hershey's dividend is relatively safe.

Hershey is one of the top chocolate and confectionary companies in the world, controlling iconic brands that are ubiquitous to consumers. Competition is not an overwhelming problem for the company, but if customers became more health-conscious, that could hurt the growth rate for the whole industry. During the last financial crisis – an especially severe recession – the company managed to grow both its profits and its sales, although the dividend was frozen. Hershey proved resilient to the pandemic as well.

Final Thoughts & Recommendation

Hershey has shed -32% of its peak about 10 months ago, mostly due to the impact of high prices of cocoa and sugar on its earnings. We view this headwind as temporary. Hershey is a solid company, generating consistent growth of earnings. On top of that, Hershey is resilient to recessions and hence it is suitable for risk-averse investors. Total annual return potential comes in at 8.0% thanks to 5% growth, a 2.9% dividend and a 0.4% valuation tailwind. We are enthused by the quality of the business and view the stock as attractive right now. We rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7,422	7,387	7,440	7,515	7,791	7,986	8,150	8,971	10,420	11,165
Gross Profit	3,336	3,383	3,170	3,455	3,575	3,622	3,701	4,049	4,499	4,998
Gross Margin	45.0%	45.8%	42.6%	46.0%	45.9%	45.4%	45.4%	45.1%	43.2%	44.8%
SG&A Exp.	1,898	1,969	1,891	1,885	1,875	1,906	1,891	2,001	2,236	2,465
D&A Exp.	212	245	302	262	295	292	295	---	379	420
Operating Profit	1,438	1,413	1,278	1,570	1,700	1,717	1,810	2,047	2,263	2,533
Operating Margin	19.4%	19.1%	17.2%	20.9%	21.8%	21.5%	22.2%	22.8%	21.7%	22.7%
Net Profit	847	513	720	783	1,178	1,150	1,279	1,478	1,645	1,862
Net Margin	11.4%	6.9%	9.7%	10.4%	15.1%	14.4%	15.7%	16.5%	15.8%	16.7%
Free Cash Flow	474	900	744	992	1,271	1,446	1,258	---	1,808	1,552
Income Tax	459	389	379	354	239	234	220	314	272	310

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,623	5,344	5,524	5,554	7,703	8,140	9,132	10,410	10,950	11,903
Cash & Equivalents	375	347	297	380	588	493	1,144	329	464	402
Accounts Receivable	597	599	581	588	594	569	615	671	711	824
Inventories	801	751	746	753	785	815	964	989	1,173	1,341
Goodwill & Int. Ass.	1,151	1,132	1,400	1,295	3,206	3,327	3,471	4,671	4,893	4,935
Total Liabilities	4,103	4,297	4,697	4,622	6,296	6,395	6,894	7,655	7,649	7,804
Accounts Payable	482	474	523	523	502	551	580	692	971	1,086
Long-Term Debt	2,178	2,421	2,980	2,920	4,458	4,266	4,522	5,029	4,791	4,814
Shareholder's Equity	1,455	998	786	915	1,399	1,745	2,234	2,757	3,300	4,099
LTD/E Ratio	1.50	2.43	3.79	3.19	3.19	2.45	2.02	1.82	1.45	1.17

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	15.4%	9.4%	13.2%	14.1%	17.8%	14.5%	14.8%	15.1%	15.4%	16.3%
Return on Equity	55.4%	41.8%	80.7%	92.1%	102%	73.1%	64.4%	59.2%	54.3%	50.3%
ROIC	23.3%	14.3%	19.8%	20.4%	24.2%	19.4%	20.2%	20.3%	20.7%	21.9%
Shares Out.	221	217	212	211	210	211	209	208	207	206
Revenue/Share	33.01	33.48	34.56	35.16	36.93	29.44	38.92	43.18	50.44	54.32
FCF/Share	2.11	4.08	3.46	4.64	6.03	6.86	6.01	---	8.75	7.55

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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