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Jacob Kemp, Portfolio Manager
Rebecca Butler, Portfolio Manager

Return on Investment

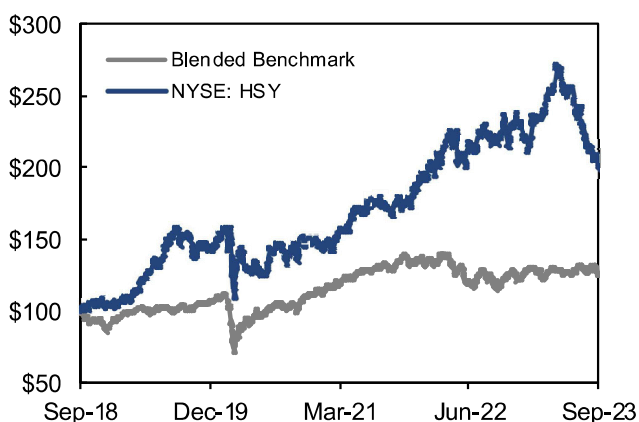
Current Share Price	\$200.80
Target Price	\$213.00
Dividend Yield	2.14%
Implied Return	8%
Conviction Rating	2

Market Profile

52-Week Range	\$184.11 - \$276.35
Market Capitalization (US\$m)	\$38,655
Net Debt (US\$m)	\$4,761
Enterprise Value (US\$m)	\$43,415
Beta (5-Year Monthly)	0.34

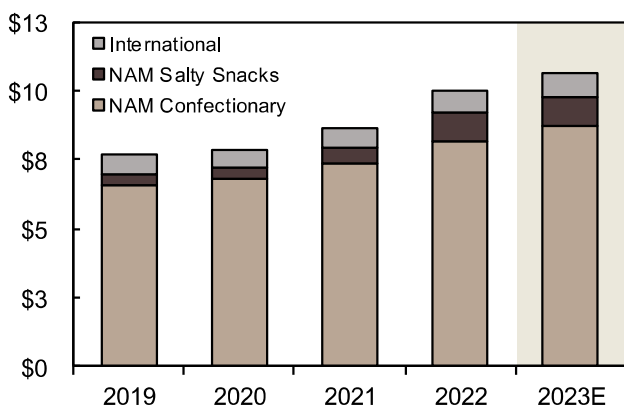
Metrics	2022A	2023E	2024E
Revenue (US\$m)	\$10,419	\$11,130	\$11,900
EBITDA (US\$m)	\$2,630	\$2,731	\$2,921
EPS	\$7.96	\$11.42	\$12.19
EV/EBITDA	16.5x	15.9x	14.9x

Historical Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Revenue Segmentation (US\$B)



Source: S&P Capital IQ

Business Description

The Hershey Company (NYSE: HSY) engages in the manufacturing and marketing of confectionary and pantry products in the U.S., Canada, and internationally. HSY operates through three segments: (1) North American Confectionary, (2) North American Salty Snacks, and (3) International. In 2022, North American and International revenues contributed 92% and 8%, respectively. The Company offers chocolate and non-chocolate confectionary products, with well-known brands such as Hershey's, Reese's, and Kisses. HSY markets and sells its products to wholesale distributors, grocery stores, mass merchandisers, convenience stores, and more. The Company was founded by Milton S. Hershey in 1894 and is headquartered in Hershey, Pennsylvania.

Industry Overview

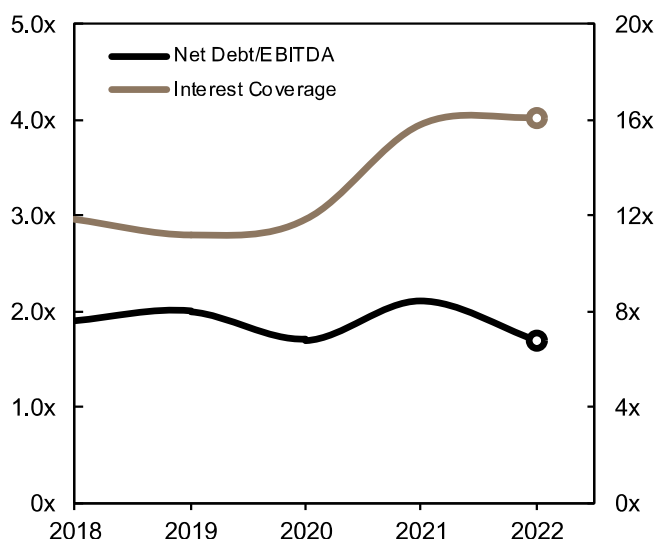
The chocolate industry holds the largest share of the global confectionery market at 55.3%, followed by sugar confectionery (32.6%) and gum (12.1%). High competition in the industry revolves around product quality and innovation, brand awareness, effective marketing, and strong relationships with retailers. The U.S. chocolate market is largely dominated by HSY (~45%), followed by its closest competitor, Mars (~30%), which is privately owned. Industry wholesalers consist of supermarkets, convenience stores, specialist retailers, e-retailers, and others. Supermarkets and hypermarkets represent the leading distribution channels and significantly influence demand for end products. Evolving trends in customer preferences and purchasing behaviours have resulted in significant consumer buying power. Increased demand for indulgent treats with less sugar, more protein, or plant-based alternatives has required companies to pivot their product portfolios to address customer needs. Additionally, weight-loss drugs such as Ozempic have recently impacted the short-term outlook for players in the consumer-packaged goods industry. However, the CPMT believes that market reactions have overlooked the growth drivers for companies in the snacking industry, with consumers favouring snacks over meals.

Over the next five years, the U.S. chocolate market is expected to grow at a CAGR of 2.9% to US\$25.7B in 2028. Consequently, retailers are inclined to provide shelf space to brands that will attract high-traffic volumes into stores and are hesitant to the risk of stocking unproven brands.

Mandate Fit

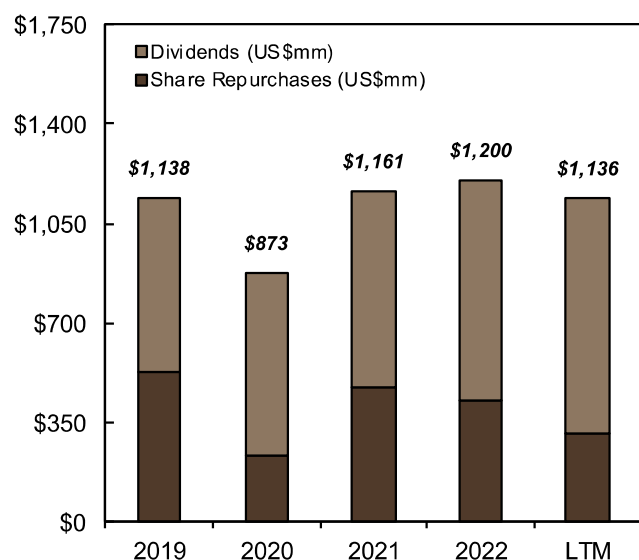
Quality Management: Michele Buck is the President and CEO of HSY, having served in the position since February 2019. Buck joined the Company in November 2005 and assumed various positions, such as COO in June 2016. Buck's extensive experience within the packaged foods industry has proven to be invaluable, demonstrated in her effective leadership thus far. The CPMT believes her strategic focus on maintaining disciplined capital deployment towards core domestic brands and reducing investment in international markets will allow HSY to further optimize operational efficiencies. Buck's 2022 compensation was 13% base salary, with the remainder (87%) comprising incentive-based pay in stock awards and non-equity incentive plans. The CPMT is aware that the Milton Hershey School Trust has ~80% voting power, with (cont.)

Figure 2: LHS Net Debt/EBITDA vs RHS Interest Coverage



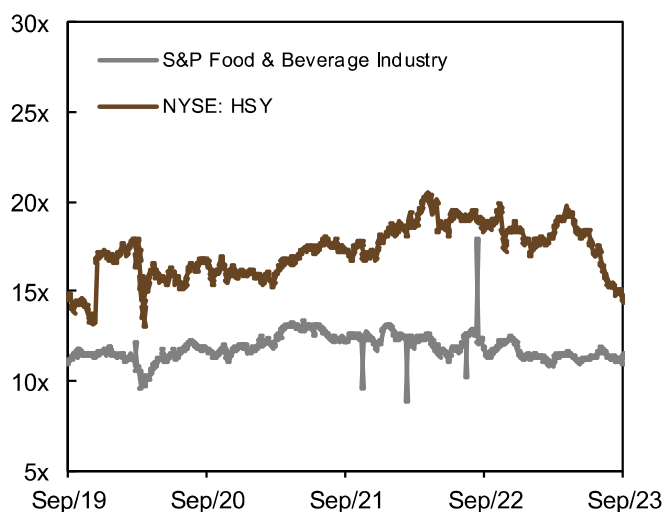
Source: S&P Capital IQ

Figure 3: Return of Capital History



Source: S&P Capital IQ

Figure 4: HSY vs Industry NTM EV/EBITDA



Source: S&P Capital IQ

only 28% share ownership. However, given its 100-year heritage of asset management and trust administration, the Fund does not believe this poses any material risks to the Company.

Competitive Advantage: As an internationally recognized brand, HSY sells and distributes its products to ~90 countries worldwide under 100+ labels. The Company demonstrates superior margins over its closest public peer, Mondelez International (NASDAQ: MDLZ), outperforming gross margins by ~7.0% over the past five years. Furthermore, HSY's large-scale manufacturing and broad distribution networks allow it to quickly replicate competitor products at lower prices, establishing the Company as a critical partner for retailers. In addition to HSY's Better-For-You confection strategy launched in 2021, the Company's portfolio innovation and wellness-focused acquisitions over the past four years have successfully executed on satisfying growing customer needs.

Strong Balance Sheet: HSY holds a strong balance sheet, with a Net Debt/EBITDA of 1.7x, compared to MDLZ at 4.3x. The Company demonstrates its ability to meet current debt obligations with an interest coverage ratio of 16.2x, compared to MDLZ's at 8.9x. HSY entered a new \$1.4B unsecured revolving credit facility in July 2023, providing the Company with adequate resources to fund growth opportunities and capital investment plans. HSY holds investment-grade credit ratings of A from S&P and A1 from Moody's.

Growing Free Cash Flow: HSY has a strong history of stable cash flow generation, growing at a five-year CAGR of 13.3% since 2017. Management's 2023 capex guidance of ~US\$800mm - 850mm represents ~8.0% of projected revenues, compared to a historical five-year average of ~5.0%. Increased capex is primarily driven by core confection capacity expansion and continued investments in digital infrastructure. The CPMT believes the Company will continue identifying niche acquisitions to augment its portfolio, rather than engaging in large transformative acquisitions. Furthermore, HSY expects continued dividend growth and annual share repurchases.

Risks and Mitigants

Similar to other chocolate manufacturers, HSY's operations depend on West African countries for product ingredients. As a result, the Company is exposed to fluctuations in raw material costs and reputational risks associated with the cocoa supply chain. HSY's risk mitigation involves hedging commodity costs, excluding dairy (given its undeveloped futures market), while monitoring and remediation systems target 100% of cocoa operations by 2025 to ensure responsible sourcing.

Valuation and Investment Thesis

The CPMT valued HSY at US\$213, implying a return of 8.0%, using a five-year DCF with a WACC of 6.1% and a 2.0% terminal growth rate. A further top-down assumption was that the Company would maintain market share and grow its salty snack business unit.

The CPMT believes that HSY's dominant position in the U.S. chocolate confectionery landscape will allow it to continue benefiting from established retail partnerships and a strong brand image among customers. The Company's ability to translate large-scale manufacturing and distribution into superior cost efficiencies above its peers will contribute to further market share expansion. The Fund favours HSY's management team in identifying strategic acquisitions and allocating capital to bolster its product portfolio. Overall, the CPMT is confident that HSY's successful track record of adapting to evolving customer needs positions the Company to successfully navigate macroeconomic headwinds in the sector.