

Company: The Hershey Company (HSY)  
 Target Price: \$106.27  
 52 Week H/L: \$110.22/82.41

Price: \$85.45  
 Market Cap: \$18.4B  
 Dividend Yield: 2.70%

P/E: 20.34  
 Beta: .55

**Company Background:** The Hershey Company manufactures chocolate and sugar confectionery products. Their main products are chocolate, gum and mint refreshment products, as well as toppings and beverages. Hershey's customers are wholesale distributors, mass merchandisers, drug stores, department stores, etc. The company's major products are Hershey Bars, Reese's, Hershey's Kisses, Jolly Rancher, Almond Joy, Kit Kat, Rolo, Twizzlers, Whoppers, York, Ice Breakers, and Bubble Yum.

**Investment Thesis:** We feel as though Hershey is a sound investment due to its superior market share in the growing confectionary industry, as well as its longstanding brand. The company has above average margins, returns, and maintained positive revenue growth all throughout the financial crisis. Its increased efforts in margin expansion and international sales signal that the company is poised to increase profitability and grow further in coming years.

**Business Segments:** Hershey has two main business segments: North America and International/Other. The North American segment is responsible for chocolate and sugar products while the International/Other segment handles production/sales in countries outside the U.S.

**Competitive Advantages:** Hershey has made significant improvements in its supply chain efficiency including consolidating production lines and outsourcing in order to cut costs and widen margins. The company also has a very strong brand and market share in a steadily growing industry.

Its increased Ad spending coupled with new product releases should help the company grow further in coming years. Finally, Hershey maintained positive revenue growth from 2006-2009, which speaks to the strength of the company as well as the notion that the confectionary industry is somewhat "recession-proof."

**Risks:** Hershey acquired 80% stake in Shanghai Golden Monkey, which has underperformed significantly to date. The confectionary industry is also very competitive and geographically segmented; posing challenges going forward. Finally, inputs costs such as the cost of sugar and cocoa are highly volatile and could potentially raise costs and squeeze margins for the entire industry.

**Industry Analysis:**

Metric	HSY	Low	Comp Range	High
Revenue %	100%			
Est. P/E Current Yr	20.44	9.47		38.53
Sales Growth Yoy (%)	3.86	-3.07		92.78
EBITDA Margin (%)	22.77	5.13		34.10

**Valuation Assumptions:**

Short Term Growth Rate: 12.06%

WACC: 9.00%

Long Term Growth Rate: 3.00%

**Key Financials:**

5 Year Revenue Growth Rate: 6.97 %

Return on Equity: 55.36%

Gross Margin: 44.95%

Revenue is 85% from the U.S.

S&P Credit Rating: A

**US Total Confectionery Market Share**

xAOC+C (\$) 52 weeks ending 10/3/15

	2015	Change vs. 2014
Hershey	31.3 %	0.1 pts.
Mars	29.1 %	-0.1 pts.
Mondelez	5.4 %	-0.2 pts.
Lindt/Ghirardelli/R. Stover	5.4 %	0.1 pts.
Nestle	5.0 %	-0.2 pts.
Private Label	3.3 %	0.0 pts.
Ferrara	2.5 %	0.0 pts.
All Other	18.0 %	0.3 pts.

Category S Growth at Retail: 2.3%  
 Hershey S Growth at Retail: 2.7%

**Corporate Social Responsibility:**

ESG Disclosure Score: 40.91 (Avg: 21.8)

Environmental Disclosure Score: 35.66 (Avg: 25.72)

Governance Disclosure Score: 60.71 (Avg.: 51.21)

Social Disclosure Score: 33.33 (Avg.: 24.45)