

**SEC 10-K Report:
The Hershey Company
Fiscal Year Ended December 31,
2017**

**Professor Lazurus
Acct 221 7983
Principles of Accounting (2188)**

The Hershey Company...a bit of History

- ❖ The Hershey Company was founded in 1894 by Milton S. Hershey and is one of the largest chocolate manufacturers in the world
- ❖ Hershey was also known as
 - ❖ Hershey Chocolate Factory
 - ❖ Hershey Chocolate Corporation
 - ❖ Hershey Foods Corporation
- ❖ Hershey sells and distributes products in more than 80 countries
- ❖ Many popular name brands, just to name a couple
 - ❖ Jolly Rancher
 - ❖ Reese's
 - ❖ Kit Kat
 - ❖ Kisses
- ❖ Hershey is headquartered in Hershey, Pennsylvania
- ❖ Employees 15,360 Full-time; 1,550 part-time
- ❖ Trades on NYSE, symbol "HSY"
- ❖ Ranked 379 on Fortune 500



Hershey: Income Statement – Revenue

- ❖ Hershey has had steady Revenue growth since 2015
 - ❖ Net Sales grew .73% in 2016 and 1.01% in 2017
 - ❖ Hershey spent less on trade promotional spending
- ❖ Cost of Sales increased in 2016 by \$278M but then decreased by \$211M in 2017.
 - ❖ Reduction was due to lower commodity costs
- ❖ Gross profit decrease in 2016 was a result of the increased cost of sales that year.

	2017	2016	2015
Net Sales (revenue)	\$ 7,515,426	\$ 7,440,181	\$ 7,386,626
Cost of Goods Sold	\$ (4,070,907)	\$ (4,282,290)	\$ (4,003,951)
Gross Profit	\$ 3,444,519	\$ 3,157,891	\$ 3,382,675

Hershey: Income Statement – Expenses

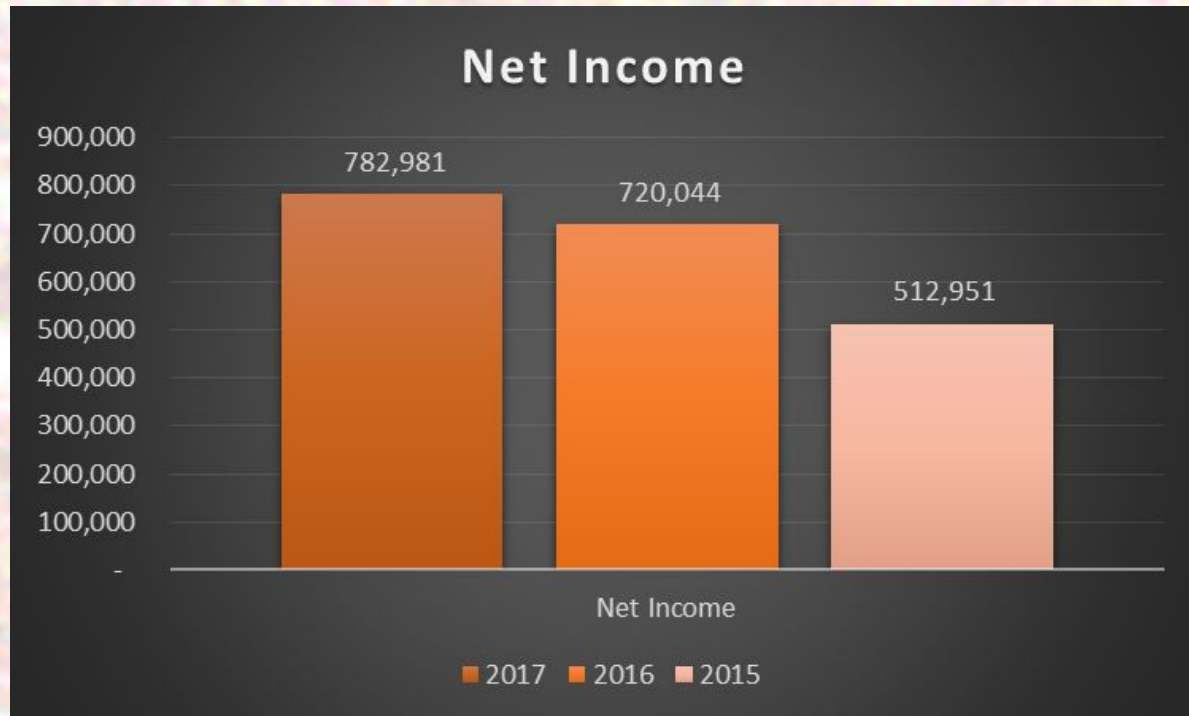
- ❖ Hershey reducing SG&A to essential spending
- ❖ Goodwill and asset impairments associated with Shanghai Golden Monkey (SGM) acquisition
- ❖ Hershey associated with acquisitions increased expenses
 - ❖ \$280.8M write-down related to reassessment of value of SGM – 2015
 - ❖ \$208.7M write-down long-lived asset impairment charge associated with SGM- 2017

		2017	2016	2015
SG&A		\$ 1,913,493	\$ 1,915,378	\$ 1,969,308
Long term asset impairment charges		\$ 208,712	\$ -	\$ -
Goodwill and indefinite intangible asset		\$ -	\$ 4,204	\$ 280,802
Business realignment cost		\$ 47,763	\$ 32,526	\$ 94,806
Other Expense		\$ 491,660	\$ 485,739	\$ 524,808
TOTAL Expenses		\$ 2,661,628.00	\$ 2,437,847.00	\$ 2,869,724.00

*Hershey sold SGM in July 2018

The Hershey Company: Net Income/EPS

- ❖ Hershey's Net Income increased 40% in 2016 and 9% in 2017
- ❖ 2015 Net Income = \$512,951
- ❖ 2016 Net Income = \$720,044
 - ❖ Increase in 2016 due to lower SG&A and no impairment or goodwill charges
- ❖ 2017 Net Income = \$782,981
 - ❖ Increase in 2017 not as high due to long lived asset charge



- ❖ Hershey's EPS in 2017
 - ❖ Common Stock = 3.79
 - ❖ Class B Common Stock = 3.44

Hershey: Balance Sheet Analysis

Assets:

- ❖ Hershey's PPE represents the largest asset at 38% of total assets.
- ❖ Goodwill is 15% of total assets and increased in 2017 due to \$128M acquisition of Ripple Brand Collective, Inc.

Liabilities:

- ❖ Liabilities decreased \$74M from 2016
 - ❖ Accrued liabilities decreased along with short-term debt in 2017

Stockholder's Equity:

- ❖ Stockholder's Equity increased \$103M in 2017
 - ❖ Hershey has 149,040,927 of treasury common stock as of 2017.

	2017	2016
Current Assets	\$ 2,001,910	\$ 1,816,778
PPE	\$ 2,106,697	\$ 2,177,238
Goodwill	\$ 821,061	\$ 812,344
Other Assets	\$ 624,058	\$ 717,963
Total Assets	\$5,553,726	\$ 5,524,323
Current Liabilities	\$ 2,076,543	\$ 1,909,443
Long-Term Debt	\$ 2,061,023	\$ 2,347,455
Other long-term Liabilities	\$ 484,595	\$ 632,714
Total Liabilities	\$4,622,161	\$ 4,696,646
Total Stockholders equity	\$ 931,565	\$ 827,687

Working Capital = Current Assets-Current Liabilities
2,001,910-2,076,543=(74,633)

Hershey can't pay it's current assets right now with the current liabilities available

Hershey: Statement of Cash Flow

Operating Activities:

- ❖ Hershey provides cash flow from operations
 - ❖ Increased by \$236M in 2017 from 2016
 - ❖ Gain in cash flow from non-cash such as goodwill, long-lived assets and depreciation. Pre-paid and other assets contributed \$18M increase to cash

Investing Activities:

- ❖ Hershey used \$257M for capital additions
 - ❖ Dollars were used for to expand and upgrade software

Financing Activities:

- ❖ Hershey repurchased \$300M of common stock which included 1.5M shares from the Hershey Milton School



Operating total = 2017 - \$1,249,515B and 2016 - \$1,013,428B

Investing & Financing = 2017 - (\$1,172,432B) and 2016 - (\$1,059,850B)

Overall Cash Flow = 2017 - \$380,179M and 2016 -\$296,967M

Hershey: Ratio Analysis - 2017

- ◆ **Current Ratio:** Hershey has \$.96 for every \$1 of assets to pay liabilities

Current ratio = current assets/current liabilities

$$2,001,910/2,076,543=.96$$

- ◆ **Return on Equity:** 84% is a very enticing number for an investor for the ROE

Return on Equity=Net Income/shareholder's equity

$$782,981/931,565=84\%$$

- ◆ **Debt Ratio:** This is a fairly high ratio for Hershey at 83.2% - Hershey is pretty dependent on borrowed money

Debt Ratio=Total Liabilities/Total Assets

$$4,622,161/5,553,726=83.2\%$$

- ◆ **Earning Per Share-Common Stock:** Stockholders receive \$3.79 per share as of FY 2017, this has increased every year for the past 3 years

Earning Per Share=Net Income-preferred dividends/weighted average shares outstanding

$$(574,164-0)/151,625=\$3.79$$

Hershey: Vertical Analysis – Income Statement

Income Statement	2017	% of Total Sales
Net Sales	7,515,426	100%
(a) Cost of Sales	4,070,907	$(4,070,907/7,515,426)*100 = 54\%$
(b) Net Income	782,981	$(782,981/7,515,426) * 100 = 10\%$

- ❖ The cost of sales (a) is 54% of the net sales for 2017.
 - ❖ Decrease in the cost from 2016 by 4%. However the cost of sales (a) is at 54% while the overall net income (b) is only 10%. The Net
- ❖ Profit Margin (b) at 10% is actually low compared to the industry standard of 14.33% in 2017 according to csimarket.com

Hershey: Vertical Analysis – Balance Sheet

Balance Sheet	2017	% of Total Sales
Total Assets	5,553,726	100%
(c)Accounts Receivable	588,262	$(588,262/5,553,726)*100=11\%$
(d) Inventories	752,836	$(752,836/5,553,726)*100=14\%$

- ❖ Accounts receivable (c) at 11% of total assets.
- ❖ Hershey's receivable turnover was 12.85 times in 2017.
- ❖ Collect receivables 28 times a year.
- ❖ According to the SEC report, McLane Company, major customer, accounts for 24% of the receivables (c).
- ❖ The Inventory (d) number for Hershey seems very reasonable at 14%. Based on this number, would presume that Hershey keeps their inventories (d) fairly low and per the SEC 10K, Hershey values their inventory (d) at the lower cost which would keep the total dollars at a low rate.

Hershey: Horizontal Analysis – Income Statement

			Increase (Decrease)	
Income Statement	2017	2016	\$	%
SM&A Expense	1,913,403	1,915,378	1,975	0.10%
Selling, Marketing, and Administrative expenses are used to support the business for advertising and consumer marketing. Hershey continues to find ways to save on these dollars to support the increase of Net Income				
Business Realignment Activities	47,763	32,526	(15,237)	-31.90%
Realignment of a business helps to support efficiencies in the business in order to grow the business. Since 2015, Hershey has been pursuing efficiencies and spent \$15M in 2017 to support the effort.				

Hershey: Horizontal Analysis – Balance Sheet

			Increase (Decrease)	
Balance Sheet	2017	2016	\$	%
Cash and Cash Equivalents	380,179	296,967	83,212	28.02%
Hershey had a 28% increase to their cash. The cash and cash equivalents is what Hershey can liquidate quickly if the needs arises to pay liabilities.				
Accounts Receivable	588,262	581,381	6,881	1.18%
Accounts receivable is an asset and tells the investors how much is owed to Hershey thorough invoicing by customers. Heshey's receivables increased 1.18% in 2017				
Property, plant and equipment, net	2,106,697	2,177,248	(70,551)	-3.24%
Property, plant and equipment are long term assets that have a useful life of more than a year. Hershey sold some of their PPE in 2017 reducing the asset by 3.24%				