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The Hershey Company

Second Quarter 2020 Earnings Q&A Session

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Jason English, *Goldman Sachs*

Robert Moskow, *Credit Suisse*

Andrew Lazar, *Barclays*

Ken Goldman, *J.P. Morgan*

Nik Modi, *RBC Capital Markets*

Bryan Spillane, *Bank of America Merrill Lynch*

David Driscoll, *DD Research*

David Palmer, *Evercore ISI*

Robert Dickerson, *Jefferies*

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Steve Powers, *Deutsche Bank Securities*

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Jonathan Feeney, *Consumer Edge Research, LLC*

Kenneth Zaslow, *BMO Capital Markets*

PRESENTATION

Operator

Greetings, and welcome to The Hershey Company Second Quarter 2020 Q&A Session.

At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded.

I'd now like to turn the call over to your host, Miss Melissa Poole, Vice President of Investor Relations for The Hershey Company. Thank you. You may begin.

Melissa Poole

Good morning, everyone. Thank you for joining us today for The Hershey Company's Second Quarter 2020 Earnings Q&A session.

I hope everyone has had the chance to read our press release and listen to our pre-recorded Management presentation, both of which are available on our website. In addition, we have posted a transcript of the pre-recorded remarks. At the conclusion of today's live Q&A session, we will also post a transcript and audio replay of this call.

Please note that during today's Q&A session, we may make forward-looking statements that are subject to various risks and uncertainties. These statements include expectations and assumptions regarding the Company's future operations and financial performance, including expectations and assumptions related to the impact of the COVID-19 pandemic. Actual results could differ materially from those projected as a result of the COVID-19 pandemic as well as other factors. The Company undertakes no obligation to update these statements based on subsequent events. A detailed listing of such risks and uncertainties can be found in today's press release and the Company's SEC filings.

Finally, please note that we may refer to certain non-GAAP financial measures that we believe will provide useful information for investors. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations to the GAAP results are included in this morning's press release.

Joining me today are Hershey's Chairman and CEO, Michele Buck, and Hershey's Senior Vice President and CFO, Steve Voskuil. With that, I will turn it over to the Operator for the first question.

Operator

Thank you.

If you'd like to ask a question this morning, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from the line of Chris Growe with Stifel. Please proceed with your question.

Michele Buck

Hi, Chris.

Operator

Mr. Growe, your line is live. Perhaps you're muted.

Christopher Growe

I was muted there, I'm so sorry. Thank you, good morning.

Michele Buck

Good morning.

Steven Voskuil

Good morning.

Christopher Growe

Good morning, I hope you're all well. I just wanted to ask a question if I could, first of all on—as we're looking ahead to the second half of the year, you did call the seasons to be less of—or not a material effect on the performance of the business over that time. I'm curious, and you did have some discussion on your call this morning about Halloween overall. Can you tell based on orders, how Halloween's shaping up at this point in time, and the degree to which that could have an effect on Q3 sales?

You also talked last quarter about having some early seasonal, sort of fall product coming out. How is that? Is that in the market already, or going in the market soon, and how could that play into your overall seasonal sales in Q3?

Michele Buck

Sure. For Halloween, we do have orders from retailers. We start to get those orders way back in May; in fact, we try and finalize the orders by the end of May, and we have already shipped some product.

The way the season unrolls, we continue to ship product from, really June through early October. We have pretty good visibility to those orders. Now, it's always possible that orders could change in the coming months, but that is not a very common occurrence. I'd also remind you, as we listed in our comments, about half of our products for Halloween is purchased for self-consumption, so that's really "candy bowl", it's a celebratory kind of treat for the family. Then about 40% of it then falls into the back part of October, which are the trick-or-treat sales.

We feel good based on what we've seen. We've been partnering closely with our retailers. We feel good about many retailers wanting to lean in. We also think that consumers will find creative and safe ways to trick-or-treat. It is an outdoor event, and it's an event where a lot of masks are already worn. There's no evidence of the virus being passed through packaging or food, so we feel pretty good based on what we're seeing so far from consumer feedback. But if trick-or-treat tends to be a little lower than expectation, clearly, we'll focus even more on the "treat for me" and the "candy bowl" occasion. You already know that we shifted some of our portfolio to more everyday packaging to protect the downside, should Halloween sales be a little bit lighter, to really manage that liability.

At this point in time, based on what we're seeing, we feel pretty good. From a holiday perspective, we do have an early read on the holiday; we have started producing product. At this time, we don't really see seasonal participation being significantly impacted, and a lot of that is due to the fact that many holiday occasions and consumption is actually at home. We think that'll be less likely to be disrupted, but obviously we will continue to monitor that closely, to work closely with our retailers, as we have with Halloween.

Christopher Growe

That's great, thank you.

Just one quick follow-up if I could, which is in relation to retailer inventory levels; as you ended the quarter, I just want to get a sense of where they were. Obviously, you did under-ship demand in the quarter. There was an expectation for an increase throughout the second half of the year, and I just wanted to kind of tie into that seasonal discussion. Is that a component of the expectation for higher inventories in the second half of the year? Thank you.

Michele Buck

Yes, so, inventory was about a 1.5% to 2% headwind on our first half growth, and there were really a couple factors that drove that. Part of it is, as you recall last year, we had a build of inventory as retailers were perhaps anticipating a price increase. The lap from that creates part of that.

Secondly, we were depleting inventory as a result of consumer stock-ups and the acceleration that we saw in takeaway across our portfolio. We've been working really hard and had very strong customer service levels versus the industry, but yet we've still been continuing to replenish to kind of catch up with that accelerated demand.

Then the third factor that really folds into that equation is non-measured channel softness. We've talked to you about owned retail locations, world travel retail, the foodservice, some of those businesses that don't show up in measured happen to be the same ones where we have some of the greatest softness. The Halloween piece is not really a factor in that inventory piece, it is much more around the everyday businesses and the non-measured channel.

Christopher Growe

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Jason English with Goldman Sachs. Please proceed with your question.

Jason English

Hey, good morning, folks.

Michele Buck

Good.

Steven Voskuil

Good morning.

Jason English

Good morning. Congratulations to you and your organization for navigating everything so smoothly right now. Looking at the forward, I'm kind of curious of the pricing outlook. You guys mentioned that you expect pricing in North America to moderate to 1.5% to 2%, which I believe is pretty much singularly the effect of last year's price increases. Said differently, it suggests you're not expecting some of this trade efficiency and benefit from lower promotions to sustain.

But if so, why not, because it looks like the promotional environment for both you and your competitors remains pretty subdued in July. Why would it come back so quickly?

Michele Buck

First of all, as we look at the promotional pricing that you see as you look at some of the retail scanner data, we do not believe that data is correct. There is a lot less auditing going on during this time than previously, so the biggest issue, we think, there is, we think simply the data is just not correct. We are continuing to see the kind of promotional activity that we had planned in the second quarter, buying S'mores, Twizzlers, our Reese's in and out lover promotion, and going forward we feel good about the promotional plans that we have in the back half of the year with our retail partners.

Steven Voskuil

Yes, I would agree. We look at revenue management all the time, so driving trade efficiency is part of the base plan. But as Michele said, the outsized impact that we saw in the second quarter was really more a data issue. We were out in stores, S'mores were out, Twizzlers were out, so we had quite a bit of promotion.

Jason English

Interesting. I hadn't heard that. Thank you, that's good context.

Sticking on the same thing with pricing but flashing forward, as you mentioned, you're on the brink of cycling last year's price increases. Pricing has been part of your growth in North America for the last couple years. I don't think you've announced anything new, and you're about to cycle these. As we think beyond this year, should we expect pricing to exit part of the—to (inaudible) part of the algorithm, for the foreseeable future? If not, why not?

Michele Buck

No. I mean, we remain committed to the pricing strategy that we've discussed with all of you before, and that's really behind small and more frequent price increases. While we have priced each of the last two years, that certainly doesn't mean within our strategy that we have plans to price every single year. We really take a strategic approach where we look at opportunities across the portfolio. Right now, all of our pricing initiatives remain on track, and we continue to think that we're going to see price realization in the second half.

But as you know, we have several different levers that we rely on to drive the business. Pricing is one of those, but brand investment, key retailer initiatives, innovation, merchandising, and new capabilities, that balanced portfolio levers to drive growth is something we really believe in and we think that that's very important. We take a lot of variables into consideration when we decide what to price, when to price, how to price, and we will be consistent with the stated strategy going forward.

Jason English

Understood. Thank you so much.

Operator

Thank you. Our next question comes from the line of Robert Moskow with Credit Suisse. Please proceed with your question.

Robert Moskow

Hi, thanks for the question.

I guess two smaller ones; it's a follow-up to Jason's. My understanding is, over the past couple years, you had taken pricing on about two-thirds of the portfolio, which left another third likely to be raised as well. Has something changed since the start of the year with how you're looking at your list price increase plan? I guess that's the key thing, has something changed?

Then just a quick follow-up on Mexico; I was surprised to see Mexico down so much. Do you put that in the category of countries where chocolate is just not part of the overall embedded culture of the country, because I thought Mexico had been pretty resilient in the past? Thanks.

Michele Buck

Yes, so relative to pricing, our plans were not impacted or changed for the year. It is correct that we have a third of the portfolio that wasn't priced in those actions, but we did not change our plans throughout the year on pricing. We just continued to look across and decide when, and what, and how was the right time.

Relative to Mexico, we certainly have seen big disruptions in that market. I would say, I wouldn't put it as much—there are certainly pockets of Mexico where there are economic issues, but the biggest factor in Mexico has really been the trade, the spread of the virus, and then the shutdown of key elements of the trade, specifically the wholesaler network, the distributor network where we have about 50% of our business. It was really the trade shutdowns that impacted our business in Mexico.

Robert Moskow

Okay. Can I sneak one more in? Your outlook is very robust for a third quarter, based on the strong exit rate and the visibility into Halloween. Is your assumption that the other 40%, like the element that's based on sell-through, is your assumption that that part will be down year-over-year? Have you been appropriately conservative on that element in your outlook?

Michele Buck

I think that we have been appropriately conservative. We have partnered with our retailers, so we've utilized that visibility. We've taken into account what we think the category will be, and importantly, we've also taken into account what we believe our market share of the category will be, based on recent performance and what's happening in the marketplace right now. I think, if we see pressures in Halloween, it's probably going to show up more towards Q4 than Q3, as it will be at those end periods, post the holiday, relative to sell-through at that point in time.

Robert Moskow

Got it. Okay, thanks.

Operator

Thank you. Our next question comes from the line of Andrew Lazar with Barclays. Please proceed with your question.

Andrew Lazar

Great, thank you very much.

Even in Q2, even with the weaker volumes and elevated COVID costs that you incurred, the Company was still able to expand operating margin by 170 basis points or so. Just as we think through the second half, some of those, I guess, COVID discrete costs begin to dissipate, and volume starts to pick up based on some of the comments you made about exit rate and things of that nature. Perhaps, investment spending, I guess, picks up as well?

I guess, as we think about margins in the second half, what would be, maybe the key points to consider, versus, let's say, where Hershey came out in Q2. In other words, would you expect margins to be up similarly to what you saw in Q2, or what are some of the discrete factors that could change that one way or the other? Thank you.

Michele Buck

Steve, do you want to hit that one?

Steven Voskuil

Yes, I'll be happy to take that. You're quite right. Q2 turned out to be more favorable from a margin standpoint than we expected going in, and while we had incentives, some of those incentives were less than what we had expected for the quarter, insurance costs that we had expected for the second quarter came out more favorably. We talked on the last call about productivity, and productivity being a risk for the quarter. In fact, the productivity goals in manufacturing were still achieved.

Probably the lingering piece is PPE and cleaning costs, that will continue. As we kind of take Q2 and look to the future, obviously the incentives, based on everything we know today, are not returning. Productivity we expect to continue, along with our full year plan. PP&E, it's not a big cost in a quarter, so think $3 million, $4 million a quarter as a benchmark. We'll continue to drive SG&A savings, both at the corporate level with travel and meetings, as well as at the division level.

Then as you said, we're going to spend a little bit more back from a DME standpoint. While we had an opportunity in Q2 to optimize, probably optimized a little bit more than we had expected, we are going to invest back more behind the brands as we get to the back half of the year, and a little bit less pricing benefits (phon) as well. You had a block price benefit across the first half; as we lap now, that will also start to come off.

Those are the big drivers, and that's the reason—again, not giving specific guidance, but expecting some margin acceleration in the back half.

Andrew Lazar

Very helpful there. Then just one last one; Michele, the market share gains that Hershey's been seeing have been pretty phenomenal and unprecedented in many ways, and certainly a big part of that has been the Company's execution, particularly at the point of sale and in-store, leveraging the advantaged distribution model that you have. I know there's been some issues at competitors, let's say, around supply chain resiliency and things like that. I'm just trying to get a sense, as you think through how market share can sometimes be pretty sticky, both when it's gained and when it's lost. How do you think about the share that Hershey's put up? I would assume that at some point, as things normalize and competitors get back their supply chain resiliency, there'll be some additional pressure on that front. But I'm just trying to get a sense of how much do you think, of share, can structurally remain or be sticky, versus let's say, some that might be more transitory, if you get what I'm asking?

Michele Buck

Yes, no, absolutely. I guess I'd start by saying, even pre-COVID, we had very good momentum in both takeaway and market share, starting last year. We really attribute that to the balanced activation plan and great execution that we had even then, which was I think the right balance across advertising, distribution, pricing seasons and innovation, kind of that suite of levers that we have.

Obviously since COVID, as you mentioned, our team's really stepped up relative to execution, keeping product on shelf. While there were some struggles amongst some other competitors in the marketplace, and certainly we do know some competitors also began to rationalize SKUs to simplify their portfolios. We do believe that the recent share performance is likely to persist for several more months, and while we do think that that huge gain that we're seeing is likely to revert next year as we lap the strengths, we do believe that some of the gains will remain in the long-term and sustain.

Andrew Lazar

Thanks so much.

Operator

Thank you. Our next question comes from the line of Ken Goldman with J.P. Morgan. Please proceed with your question.

Ken Goldman

Hi, thank you.

I also wanted to follow-up on Jason English's question, really just to make sure I understood your response. You did say in the prepared remarks, price realization contributed 4.2 points in the quarter, slightly ahead of expectations, due to incremental trade efficiencies realized from revenue management and selective programming choices related to COVID-19. Sorry for reading all of that, but I did interpret this quote, especially the part about selective programming choices, to mean that you did reduce your reliance on discounting in the second quarter.

I guess, given that you're not changing your guidance for the back half of the year, doesn't that imply that you're going from a period of less discounting to a period of more normal discounting, or what am I missing there? I'm just still not sure I understand exactly what that quote means, maybe.

Michele Buck

Sure. We did pull back a little bit in the second quarter, and that was primarily around refreshment, given what was going on with refreshment being so incredibly soft, and the functional demand just not being there as much for that product, especially given its presence in convenience stores. Then also a bit on grocery, just because that part of the business was doing so incredibly well on its own.

A little bit on S'mores, we had really strong demand on S'mores, but what I'd say is the trends are now stabilizing, as the most severe declines on certain parts, or most severe accelerations on parts of the portfolio in Q2; we saw the wildest swings, and those tend to be stabilizing a bit now. We are kind of going back to a more normalizing approach. It wasn't a huge pullback in Q2, it was very selective against those parts of the portfolio. Does that help?

Ken Goldman

Yes, no, that's clear. Thank you.

Then for my follow-up, some of your peers in the broader food and beverage industry have talked about making some pretty meaningful reductions to their product portfolios in terms of SKUs. We haven't heard quite as much from Hershey on that; I'm just hoping to get an update from you in terms of how you think the breadth of your portfolio is right now in a post-COVID world, and whether there are any plans, I guess, to sort of make major reductions or minor, to some of the products that you might have.

Michele Buck

Yes, so, we had already really embarked upon an SKU rationalization program, really over the past two, two and a half years. We had pretty aggressively taken a look across our portfolio and made a lot of those cuts. At this point in time, we're feeling pretty good about where we are; I don't see a major program. Obviously, it's always an ongoing focus to optimize and to cut some of the small things, but the biggest steps, we had already taken previously.

Steven Voskuil

Meanwhile, some of the new innovations that we brought to market this year have done quite well, where we brought in new SKUs, whether it was Kit Kat Birthday or Take 5.

Ken Goldman

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Nik Modi with RBC Capital Markets. Please proceed with your question.

Nik Modi

Yes, thanks. Good morning, everyone.

Just a kind of two-parter on innovation, it's nice to see retailers taking on new products. We've been seeing that trend now; obviously, people were a little doubtful of how much new product would actually get into retail, given the focus on A-level SKUs. Michele, I was wondering if you can just opine on, has there been a philosophical difference at retail that you can discern, in terms of what products they're actually taking on the shelf? I'm really trying to get, are large companies like Hershey advantaged from this situation in terms of new products, given well-known brands, etc.?

Then on the second piece of that, some of the work we've done looking at numerator data would suggest there's a heavy degree of interaction between the Hershey portfolio and the snack cake category. I know you've dabbled in that area to some degree with Mrs. Freshley, but can you just give us some thoughts on how you're thinking about that adjacency opportunity a little bit more broadly?

Michele Buck

Yes. Starting with your first question, we definitely have seen retailers, especially during the COVID situation, dial up their focus on power SKUs, must-have SKUs, really because of the huge consumer demand and needing to make sure that they were in stock on the most important items, and also just because of labor needs and all of that, just a focus on what's really going to deliver the business. I think that's why you're seeing many of the manufacturers also now start to really re-think their portfolios to do the same.

I would say, yes. I think the retail trade is saying, "Hey, right now, this is a time where we need to focus on those biggest, most important items." I think you're right about that.

Then, I'm sorry, remind me again, your second question? I lost my train of thought there.

Nik Modi

Yes, no problem. Snack cakes category.

Michele Buck

Oh, snack cakes. We have seen some similarity, some crossover in terms of candy and snack cake consumption. They both have some similar traits in terms of really hitting the treat sweet tooth, and filling certain needs for consumers that are similar. I think we have seen some of that crossover, certainly from consumers.

Nik Modi

Great, thanks.

Operator

Thank you. Our next question comes from the line of Bryan Spillane with Bank of America. Please proceed with your question.

Bryan Spillane

Hey, good morning, everyone. Just two quick ones for me; one, you gave some color in the press release about performance in June, so just curious if July has continued to progress the same way?

Then the second question is more around distribution gains. You referenced in response to Andrew's question, some of the issues that some of your competitors have had. I guess, if they're reducing SKUs and maybe having trouble keeping some things in stock, have you actually gained shelf space or gained distribution in this time period? If so, if you could give some color in terms of which channels; is it more in convenience and gas, more in grocery? Just some more color there would be helpful. Thanks.

Michele Buck

We haven't really seen any material changes in July, versus our trends. There are some geographic differences, just given the big differential across geographies as a result of COVID. No, I would say we're feeling good about what we continue to see. Market share is pretty consistent, though, in terms of our market share performance. I would say we're feeling pretty good in terms of a continuation of that trend.

Steven Voskuil

I think wherever we've had opportunity to take advantage of getting shelf space or a broader distribution, I'd say it's crossed over all classes of trade.

Michele Buck

Yes, and we certainly—those are some of the benefits that I think you don't always see immediately, because planogram timing, etc., to realize those benefits. Some of those benefits, I think, we started to see in June, and that might be what's driving some of our continued positive trends in July.

Bryan Spillane

Okay, so you have seen some shelf space gains, or some distribution gains?

Michele Buck

Yes.

Bryan Spillane

Okay, perfect. Thank you.

Operator

Thank you. Our next question comes from the line of David Driscoll with DD Research. Please proceed with your question.

David Driscoll

Thank you and good morning.

Michele Buck

Hi, David.

David Driscoll

Great, good morning. I wanted to ask about a little bit on the seasonal candy and then a specific question on Halloween, but they're related. I know for the full year, roughly a third of the portfolio is seasonal candy, but in just the second half of the year, can you give us the breakdown between your seasonal sales and your everyday sales? What percent of the second half is actual seasonal?

Michele Buck

Well, Halloween we've said previously is about 10% of our full year business. Certainly, seasons are higher in the second half than they are in the first half because, Valentines is our smallest holiday, so you really have Easter as a big one in the first half. We don't really want to get into some of the specifics by quarter, but I would say that the seasons impact is definitely bigger in the second half than the first half.

David Driscoll

Just to be clear, I think what you're saying is, and I think you said this in the release, that you don't expect Halloween to have a material impact, so it sounds like it's flat. If seasons are 40% or something like that of the second half, and the seasonal numbers are expected to be roughly flattish and your everyday is running up 9%, I think that's what you also said in the release, then is that not a decent way to think about how to model North America in the second half?

Michele Buck

I think your math is generally correct. I can't argue with the math. The one thing I would say is, you're speaking specifically to measured channels, and you need to remember the impact of non-measured channels, owned retail, foodservice, air travel, world travel retail, which is airlines, and the trends on those businesses as that has been, as we've shared, the biggest hit in our business. While those channels are certainly not shut down like they were in Q2, they're in their recovery mode, and the recovery mode is definitely going to be a slow uptick.

David Driscoll

Okay, so a little adjustment to maybe the everyday 9% that I quoted, because of those unmeasured channels. Then seasonal, the expectation is roughly flattish, given what you know today. Obviously, there's plenty of caveats on what could change, so I think I'm understanding you.

My follow-up question is just on your marketing and your overall expenses. A tremendous job, I give you guys huge kudos on what you did in the second quarter to get your margins where they came out; I was just curious, is there a learning here that you can actually run a significantly tighter expense budget on a go-forward basis? I'm guessing that COVID made you do certain things that you normally wouldn't have done, and the results here, of market share gains, are fantastic.

When you think a year forward, two years forward, can some of these cost reductions be very sticky, because it's proving that you didn't need to spend some of those monies in order to produce, I think, excellent results at retail.

Michele Buck

I think SG&A is clearly an area that we're expecting that how much we need to spend will change permanently over time. I think that piece, yes.

I think on the marketing expenses, it's a little bit different. Certainly, some of our pullbacks were as a result of certain businesses, like refreshment, that were down 40%, and we just didn't think it made sense to be spending into that. Then part of what we were able to do was to leverage the fact that a lot of advertisers dropped out of the marketplace, and as a result, the costs of media were less than we had planned them to be, and so we were able to have a nice outcome there. As advertisers come back into the marketplace, some of that pricing benefit is not going to be available anymore. While there may be some ongoing efficiencies, and we are always looking to tighten our data knowledge and capabilities around media since we are big spenders, to get more for our money, and we're always building capability to take it to the next level, there were some unique circumstances there as well.

Steven Voskuil

Yes, I agree. Certainly on the pricing, for some of the media exposure that came down, that was a big benefit. I think we did benefit from tools and investments we made around marketing efficiencies and driving ROI and optimizing. We haven't talked as much about some of those tools; tools both on trade efficiency, but also marketing spend efficiency. Those tools have allowed us also to be more agile as things evolved quickly. That part is something we'll look to leverage further in the future.

David Driscoll

I really appreciate it. Those are helpful comments. Thank you.

Operator

Thank you. Our next question comes from the line of David Palmer with Evercore ISI. Please proceed with your question.

David Palmer

Thanks.

I just wanted to follow-up on that Halloween comment in your prepared remarks. You mention that the seasonal performance would not have a material impact to the second half results. That's an interesting comment; I mean, we're not doing official guidance here. You would think that that would be a big variable; it might be 20% of your second half revenue.

Is there something that's giving you confidence there? I know that you wouldn't be making such a comment without, perhaps, orders in hand, or some insights around the ability for you to sell that through, even if it doesn't happen to trick-or-treaters. I have a follow-up.

Michele Buck

Yes. I mean, I think the confidence drivers are orders in hand, some of the dynamics that exist around the fact that only half of that Halloween volume is trick-or-treat, the fact that the trick-or-treat behavior is outdoor, people do wear masks. As we get closer, we're feeling good about that. Now, obviously, certainly we didn't provide official guidance in the back half of the year, and there is uncertainty and volatility overall given the virus.

But based on everything that we know and the visibility we have, and every day we get closer, we feel that we've taken an appropriate look at what we think can happen, and have really factored that into our outlook as best possible. We've mitigated some of the downside risks, with the everyday portfolio versus all Halloween packaging.

Steve, anything you would add to that?

Steven Voskuil

No, I agree. I think for the things we can see, and certainly the things we can control, we're optimistic. But part of the reason for not providing more specific guidance is there are things we can't control and probably can't see. For those reasons, there still is potential variability in the back half, but everything we can see gives us a point of confidence.

David Palmer

That's helpful. With regard to COVID-related costs, you mentioned those were a gross margin headwind in the second quarter. Could you give some color as to how much that might have been, and how much of a gross margin headwind do you think it's going to be for the year? Thanks.

Steven Voskuil

In terms of just COVID-related costs?

David Palmer

Just COVID-related costs, yes.

Steven Voskuil

Yes, probably on the order of—for the gross margin, somewhere between $15 million and $20 million of COVID-related costs. Again, we had predicted it might be more than that; in fact, it came out less. As we go forward in the rest of the year, the biggest piece that will stick around is that personal protective equipment, cleaning costs. If I take that $15 million and $20 million, think about maybe a third or a quarter becomes sticky to the back half.

David Palmer

Thank you.

Operator

Thank you. Our next question comes from the line of Rob Dickerson with Jefferies. Please proceed with your question.

Robert Dickerson

Great, thank you so much.

I just had a question on seasonal traffic and momentum there that we've obviously seen the convenience store channel prove throughout the quarter, overall. It seems like hopefully that momentum is sustainable, as long as people are leaving their homes more and going to the channel. But also, that channel is more relevant for you than a lot of other companies in the space, and usually I would think there is a little bit of a margin benefit just given the single-serve products which are sold there, that you sell there. In the remarks, you said that margin mix really didn't have much of a headwind, and it doesn't sound like you're really speaking to that as a risk going forward. It looks great; I'm just kind of curious where I'd be wrong in thinking that some of that single-serve product could usually have a better price per pound and potentially better margin impact, and why it didn't and why it might not?

Michele Buck

Yes. I mean, I think that's generally correct. We are seeing a rebound in convenience stores as people are out and about more, and I think also as some people are choosing not to travel via air, but do vacations that are more driving vacations. I think that's helping as well.

Yes, I think certainly, instant consumable and that class of trade are helping the business. We're also seeing instant consumable strong, and strengths in other classes of trade, as people have returned more now to grocery stores and trips and shopping. The strength is not just in convenience stores. That is helping our margin mix.

Robert Dickerson

So, it sounds like even though—if I think about a movie theater, even though consumers might not be going to move theaters and buying Hershey products there in a single serve format, as long as traffics up in c-stores and maybe like you're saying in grocery stores, a bit, that they're still trying to get their fix, right. So, they might not be buying the big bag, but as they go through checkout, it sounds like what you're saying is maybe some of your checkout momentum in traditional mass in grocery is doing better than maybe it had. I know if we go back a couple of years that at one point in time that was a focus of yours. Is that fair?

Michele Buck

Yes. That is fair. It has definitely—we're seeing growth on the consumable piece of the business and again, I think a lot of the that is due to more traffic in those channels.

Robert Dickerson

Right. Then lastly just to keep it simple and summarize, is you did say if a consumable is growing, right?

Michele Buck

Yes.

Robert Dickerson

So, this (inaudible) it has to be doing very well. At c-store it has to be doing very well in traditional mass in grocery at checkout.

Michele Buck

Yes.

Robert Dickerson

That's more offsetting the pressure away from home in other channels?

Michele Buck

Yes.

Robert Dickerson

Thank you. Pass it on.

Operator

Thank you. Our next question comes from the line of Alexia Howard with Bernstein. Please proceed with your question.

Alexia Howard

Good morning, everyone. A few questions from me. Could you maybe just talk a little bit about what's going on in the e-commerce channels. Other companies have talked about real surges in terms of Click and Collect and in at home delivery. I'm wondering whether maybe the meltability of chocolate in this hot season means that the delivery option isn't quite as available to you. Just curious about what's going on there.

My second question is more about your marketing mix strategy in the second half. We know that in the TV channels, the production isn't going to be as—there's not going to be as much new production in the Fall and therefore the effectiveness of marketing on TV may drop off. Also, I know that you've announced that you're pulling back on your Facebook spending in the second half as well. I'm just wondering where that spend is going to go. Is it going to be into other digital channels, or how are you thinking about the mix? Thank you and I'll pass it on.

Michele Buck

Yes. So, we have continued to see our category in our business perform really well in e-commerce and seen that growth accelerate. In the second quarter we saw growth of 200% on our e-commerce business, and that was really driven by strength both in the Click and Collect kind of pickup and in delivery fulfillment models. So, we saw growth across the board there. You're right that we tend to have a little bit of a softer business during the hottest months in the summer, but we're continuing to see that pretty strong growth even throughout June. I think just the trends are bolstering that and that growth importantly we're seeing across every piece of the business. Seasons, take home (phon), and instant consumables.

In the past we've spoken about e-commerce being roughly 2% of our business, and we believe that this channel, by end of year, could approximate about 5% of our total Company sales. Definitely seeing a lot of strength there.

When it comes to marketing mix. Certainly, we're seeing efficiencies that we're going to realize in the back half in that TV classic trade. It continues to be a really viable place for us to put money given the very high household penetration on our business and the sheer number of eyeballs that you can reach on TV. It's very efficient. As we look to digital and the pullback on Facebook, we see taking those funds that were in Facebook and redirecting them still back into other digital media venues. So, those dollars will stay in digital but just on other platforms like YouTube, for example.

Alexia Howard

Great. Very helpful. I'll pass it on. Thank you.

Operator

Thank you. Our next question will be Steve Powers with Deutsche Bank. Please proceed with your question.

Steve Powers

Great. Thanks, everybody. First, internationally, I appreciate the category itself was under pressure in many of your key markets as you called out. But can you talk a bit about your market share trends in those markets and maybe a little color as to how you're thinking about relative prioritization of investment in those markets as hopefully they begin to improve in the months and quarters ahead? I guess, what I'm thinking through is should we expect you to exist the crisis with similar roles of strategic emphasis and standing in those emerging markets versus run rate going in, or is there a risk that you flip a bit behind as navigating the U.S. landscape takes precedent?

Michele Buck

Yes. We are gaining market share across most of our international markets. We feel great about that. The weakness that we're seeing is really driven either by the COVID related shutdowns in most of the markets—government restricted shutdowns, and especially in a lot of the developing markets. In some markets the economic impact of that that impacts the category, but we feel great that we're winning share across most of those markets. I don't think that we will flip (phon) relative to our strategic emphasis, we're still committed to what we want to get achieved in those markets. We still believe in the long-term potential in those markets. We are pulling back on a temporary basis just consistent with where the business is, but continuing our focus in all of our key initiatives to win long term in those markets.

Steve Powers

Okay. That's helpful. Then, I guess if I could, just to clean up back on the forward pricing outlook. Your core category is exceptionally rational in recent years, and I guess just given your share gain success, and I guess some also just the economic pressures that might build in the back half and into 2021, how do you size up the tail risk that some of that price rationality might come under challenge, or at least make incremental pricing tougher to come by in at least the near term? I guess harkening back to Jason English's question earlier.

Michele Buck

We consider a lot of factors as we try and decide how to think about how and when to price. As it comes to recessionary times, over the past we've seen that our category tends to have less of the highs and lows that some other categories have because we are an affordable luxury. So, at times when people need to cut back on other categories—we will continue to just evaluate all the different factors for when, how, on what we will take pricing. But we aren't particularly concerned that we can't price in recessionary times. We have done that at points in the past.

Steve Powers

Okay. Thank you very much.

Operator

Our next question comes from the line of John Baumgartner with Wells Fargo. Please proceed with your question.

John Baumgartner

Good morning. Thanks for the question. Michele, just in light of your general sense of optimism for Halloween, and I guess speaking with the brand investment plans. It sounds as though there will be some shift of March Madness and Olympic spending into H2 (phon) but could you also talk a little bit about in store merchandising activity? Are you expecting uptick in retailer support for the season this year? I guess your increased display space for your portfolio broadly.

Michele Buck

I mean, we are expecting, based on our partnerships with retailers, very strong in store support for Halloween with most of our retailers. We partner with every retailer and each retailer has their own strategy in terms of how much they support the holiday, and so I think in general most of them are continuing to lean into and anticipate and drive to a very strong Halloween. We believe that given our ability to execute during this time and some of the—you've seen the results of that on the share in the marketplace. We certainly think that even our performance within the category for Halloween should be quite strong.

John Baumgartner

Okay. Just coming back to international and the sales weakness there, I would guess a presumed review of the cost structure. Given the success you had in right sizing China which was sort of a unique animal in its own right, to what extent is COVID stress sort of identifying new opportunities in other geographies where you can use this down turn to maybe further strengthen your global call structure more sustainably?

Michele Buck

Steve, do you want to talk about that?

Steve Voskuil

Yes. Our international team does a great job of looking to optimize their P&L and cost structure on an ongoing basis and certainly the new opportunities here as businesses then curtailed in some markets have shown even further potential there. I think to Michele's earlier point, the strategic priority of international hasn't changed, and so we want to continue to appropriately invest behind those businesses to unlock the long-term growth that we believe is there. To your point, certainly we'll never waste a crisis in terms of looking at every possible way to be efficient with P&L.

John Baumgartner

Great. Thanks for your time.

Operator

Thank you. Our next question comes from the line of Michael Lavery with Piper Sandler. Please proceed with your question.

Michael Lavery

Good morning. Thank you.

Michele Buck

Good morning.

Michael Lavery

Can you just talk about corporate costs a little bit? It looks like it's the lowest they've been in at least about seven years, certainly declined sequentially. You called out the travel and meeting savings. How much of that should we expect to continue, is there other savings there that might revert back in the second half we should watch out for? How do we think about looking ahead on how that line might unfold?

Steve Voskuil

Yes, the progress that we made in the second quarter, as we said, from a travel and meeting standpoint, was actually better than we expected going into the quarter, and given everything we see today, business is not going to return to whatever normal was. We expect in the back half we're going to see those savings continue. As I think about the second quarter, we saw probably $20 million, $15 million to $20 million of opportunity across all of those areas, and I'd expect to see something like that, maybe a little bit less, but something like that in the back half as well. Beyond that, that was really the biggest driver from a financial (audio interference) standpoint.

Michael Lavery

Okay, great. Thanks. Just following up on Halloween again, can you give us a sense of what some of your options may be? I know you recognize there's a little bit of the uncertainty still on how the consumer sell through goes. If that disappoints, do you just have to buy it all back? Can you buy some down? Does it depend on the magnitude of inventory that may be left? Can you just let us know what the options are and how you might be preparing for any of those?

Michele Buck

Yes, so, the first thing we're doing is trying to make sure that we ensure sell through, which is something we always do, which is having the right merchandizing, getting product on the floor as early as possible, and leveraging media investments to remind consumers, excite consumers, about the holiday. Then post-sell though, there's always a mark-down period that occurs based on how much product actually sells through, both in total as well as you have to get the mix right across each piece of the portfolio. So, every year as we build our plans, we plan for that, and this year is no different. We planned for that, so we tried to mitigate our risk by, as we look at the trick-or-treat portion of the portfolio, pulling back on seasonal packaging, having more every day, so that's another lever we used, and then really working through the mark down plan.

Michael Lavery

Okay, great. Thank you very much.

Operator

Thank you. Our last question this morning comes from the line of Ken Zaslow with Bank of Montreal. Please proceed with your question.

Kenneth Zaslow

Hey. Good morning, everyone.

Michele Buck

Good morning.

Kenneth Zaslow

Just have two questions. One is, have you at all had to change your innovation plans, and I don't mean for the next two months or three months, but for the longer term? There've been a lot of companies that've said, look, our 150th new innovation, we're not going to do any more. So, has it been a refinement of the innovation program for the next, call it, one to two years?

Michele Buck

I would say we already did that. A few years back, we took a look at our innovation strategy and really streamlined and focused on sustainability, and that really did lead to not having that 150th new innovation, but really being very real about a focus on sustainability that would lead to the greatest profitability and top lines for us. We're not really making any changes related to COVID, but I feel really good about the work that we did a couple years ago changing our innovation strategy to make sure that we really did have that focus across the balance leverage. Innovation is one of five or six levers. It's not the lever.

Kenneth Zaslow

Okay, and then when I think about the longer term, and obviously, COVID-19 is evolving, for sure, but are there certain milestones or are there certain things that would have to happen for you to rethink seems like as of now, let me start with this, as of now, it doesn't seem like you've made any structural changes to your business model. You've changed a little bit of investment here and there, but nothing that would be longer term. Are there anything that you would see in the COVID-19 implications that cause you to have to do something, and what would that thing be that you would have to do to change your business model? If that makes sense.

Michele Buck

Yes, so, I guess I would say there's nothing that I would say is a big fundamental shift to our business model. There are some changes. For example, e-commerce, the acceleration in e-commerce is here to stay. Where consumers are in terms of household penetration of people buying online is where we thought it would be maybe five years from now. To some degree, that is a shift because e-commerce is a little more than a channel. It's some of the business model as well. Fortunately, a few years back, we had invested to build capability in e-commerce, and I feel really good that we were set up to be able to take advantage of that, but we are taking some further steps internally to develop e-commerce to really now be one of our main steam channels, versus before it was kind of, I'd say, in the growth development phase.

There are other consumer trends, things like cocooning, and people staying at home, the importance of value on the short term, some of those trends that we are making some changes to adapt to, but we always adapt to ever-changing consumer trends. So, I wouldn't really call those out as business model changes. Then certainly, there will be some changes in terms of how we work, in terms of some people working more from home, the ability to have people working remotely, potentially a shift to suburban and rural settings, which actually can be a strength for us, but I would say e-commerce is probably what I would put in one of the bigger shifts like that.

Steve, is there anything you want to…

Steve Voskuil

Yes, if I turn the question around, I would say COVID has also shown us places where we have strength through this, and having the agility in our supply chain, the retail execution capability, as Michele said, the digital investments, the agile investment approach, those are things that we've learned are even stronger in this kind of environment.

Kenneth Zaslow

What if as—refresh me, like, everybody's working from home a little bit more. People don't need to have the meetings, and so, your refreshment category may change dramatically, or maybe the size of Halloween or the size of Easter may kind of contract. Are there thoughts on those two potential outcomes, or at this point you'd say not really something that we'd be worried about? I'll leave it there, and I appreciate your time.

Michele Buck

First of all, based on seasons, I would say not something that I'd be worried about at this point in time, given the results that we saw on Easter, which was really in a peak period of people being told not to go grocery stores, and we still had a pretty decent Easter. Obviously, we will all learn more as we go through every one of these, but at this point in time, I don't see a major business model shift needing to come from that. I would say from a refreshment perspective, yes, people will be working from home, but people are also going to be going out, and they're going to be out and about doing things, I think, more so. There could be some, I'm going to say, more shifts as there always are in portfolio relative to people baking more, people doing one thing or the other more, but not that I think I really think about as a massive business model shift.

Kenneth Zaslow

Great. I really appreciate it. Stay safe.

Michele Buck

Thank you.

Steve Voskuil

Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Miss Poole for any final comments.

Michele Buck

All right, so, it's Michele. I just want to thank you all for joining us this morning. As you know, this was a new format for us, and I hope that you found it helpful.

Let me close with some very brief remarks. Over the years, our great brands, our advantage margin structure, and our consumer centric strategies have enabled us to navigate volatile environments and consistently deliver strong stockholder returns. We take great pride in our passion to create new ideas, innovation, and ways to connect consumers to continue to make moments of goodness in their lives. With our relentless focus on the consumer, and adaptive operating model, and our remarkable team of people, we are confident that we can one again respond to the changes in the marketplace, to deliver growth, and unlock long-term value for our stockholders. Melissa will be available after the call to answer any additional questions you may have. Thank you very much, stay safe, and have a great day.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.