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The Hershey Company

Fourth Quarter 2020 Earnings Q&A Session

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Ken Goldman, *JPMorgan*

Andrew Lazar, *Barclays*

Robert Moskow, *Credit Suisse*

Alexia Howard, *Sanford C. Bernstein & Co., LLC*

Michael Lavery, *Piper Sandler*

David Palmer, *Evercore ISI*

John Baumgartner, *Wells Fargo*

Chris Growe, *Stifel Nicolaus*

Jason English, *Goldman Sachs*

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Ken Zaslow, *BMO Capital Markets*

Rob Dickerson, *Jefferies*

PRESENTATION

Operator

Greetings, and welcome to The Hershey Company Fourth Quarter 2020 Question and Answer 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, Ms. Melissa Poole, Vice President of Investor Relations for The Hershey Company. Thank you. You may begin.

Melissa Poole

Thank you. Good morning, everyone. Thank you for joining us today for The Hershey Company's Fourth 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. Our first question is from Nik Modi with RBC Capital Markets. Please proceed with your question.

Nik Modi

Yes, hi, good morning, everyone. Happy New Year. A couple questions. First, on just trade spend and just thinking about—you know, obviously, things have been pulled back quite dramatically in 2020, and as we think about 2021, I'm just curious, in terms of your discussions with retailers, how you're talking about trade spending. One of the things that we've been looking at is kind of this reset of price sensitivity, given that no promotions have effectively been in the market for the past nine to ten months, so just wanted to get your thoughts on that.

Then, the other question is just if you can give us kind of a roundup of the innovation program that has already been announced, just so we can get a sense for the program in 2021. Thanks.

Michele Buck

Sure. Relative to trade spending and promotion, we didn't have any meaningful shifts in promotion activity. Our levels for the year were pretty consistent with prior year, so we were basically flat. The IRI data will support that, so I think there's a little bit of a disconnect in the Nielsen data. So, we don't really expect any material changes as we go into next year, as well.

Then, as you look at innovation, certainly, I think some of the bigger items—we have, Kit Kat flavor, which has done exceptionally well for Kit Kat on a global basis. We have the stuffed Reese's products and our Reese's innovation tends to also always be quite strong for us. We have a permissible line of products to really address that benefit of better-for-you, that we are underdeveloped in across our portfolio, and that will include Kit Kat Thins, which is an addition to what has been an already launch of a successful platform with Reese's Thins. We are also relaunching our sugar-free line to zero sugar, really focusing on Hershey and Reese's, and launching Hershey and Reese's organic products. Those are the highlights for the year, and I would say, overall, if you look at our innovation, the level of innovation is about comparable to prior year.

Nik Modi

Excellent. Thanks, Michele. I'll pass it on.

Operator

The next question is from the line of Ken Goldman with JPMorgan. Please proceed with your question.

Ken Goldman

Hi, good morning, and thank you. Two for me, if I can. First, I wanted to ask about the early holiday shipments that benefited 4Q. Obviously, I think, over the 4Q/1Q '21 period, it's, overall, a big benefit to you, so I don't think of it as early shipments, but I am curious, how do we look at the potential for a difficult comparison in 4Q '21, or should we expect maybe some of these additional orders that you receive this year to kind of revert to normal if your competitors are maybe better able to fill demand going forward.

Michele Buck

Ken, if you think about the Easter that we'll be shipping for in Q4, that 2022 Easter happens to be one of those incredibly long Easters. Typically, we tend to ship a bit more in the Q4 prior to a long Easter, so we don't expect that there's going to be a material difference from a year-to-year basis because of that.

Ken Goldman

Thank you. Then, just for my follow-up, your commentary on cocoa butter costs was, I think, more constructive than some observers maybe expected, which is great, but I'm hoping you can expand on that a bit, and maybe this is for Steve, just how do we think about your all-in COGS inflation this year versus 2020.

Steven Voskuil

Sure. Yes, I'm happy to take that one. Clearly, on an all-in basis, facing more inflation this year than last year. As you know, we've got a hedging program, which means that some of the cocoa impact as the LID flows through, and we have some longer term contracts on things like freight and warehousing. With that said, neither hedging nor contracting is going to fully cover the exposure that we have in inflation. If I take freight as an example, we look at things like demand planning and how important that is, and to the extent our plans deviate from the way the volume comes in and having to go to the spot market, for example, where we have less cover, there's some risk there. So, net/net more inflation. We've got a pretty good level of cover, and that's included inside of our guidance, but we're not fully covered, either, on the commodity side or outside of commodities.

Ken Goldman

Great. Thanks so much.

Operator

Our next question is from the line of Andrew Lazar of Barclays. Please proceed with your question.

Andrew Lazar

Good morning, everybody.

Michele Buck

Hi, Andrew.

Andrew Lazar

Hi. I guess, first off, it seems as though Hershey's building a fair amount of reinvestment spend for '21, in both media and other capabilities. Maybe, can you give us a sense of the magnitude of this sort of reinvestment, and, maybe more importantly, the ability to sort of flex up or down, really, depending on how things play out this year?

Michele Buck

Steve, do you want to take that?

Steve Voskuil

I'm happy to take that one, as well. On the media side—and I'll say media and SG&A, in general, we're probably looking at something like mid-single-digits across those pieces.

On the media side, clearly, we want to defend and extend our share gains. We were thoughtful in how we deployed media last year. We made some reductions kind of mid-year. We actually turned it up a little bit towards the end of the year. We want to make sure, as we go into this year, that we've got enough to defend and extend share.

On the SG&A side, we kind of think about it in two buckets, and I'll say things like normal corporate expense, travel will be very tight year-over-year, and there we use zero-based budgeting formats, we watch headcount, all of that, and then we talk about the investment side, and then the investment side, we do have some capabilities that we want to continue to fortify. S/4, the ERP program drive some of Opex through the SG&A areas, more expansion of our digital capabilities, which came into play quite a bit over the course of last year, and then the analytics and insights, but, again, we talked a lot about that last year, as well, but continuing to extend our capabilities in those spaces. Could it slice up or down? I think, as we get into the year and we see the shape of the P&L and we see how the top line delivers, we probably have some latitude and flexibility there, but I would say we have pretty firm investments plans, at least in those areas, as we start the year.

Andrew Lazar

Great. Then, just lastly, I'm curious what drove the decision to take a bit of pricing on sort of one portion of the seasonal business, and should we also assume—I would think that this does not necessarily preclude Hershey from looking at other parts of the seasonal portfolio at some point if, in fact, it deems necessary to do so down the line. I'm just trying to get a sense of what goes into that sort of decision-making process. Thank you.

Michele Buck

If we step back and think about seasonal pricing holistically—let me just remind you that we had priced the Halloween portion of season, and Halloween is our biggest season, so that had occurred previously, and that's about roughly, call it 10% of our season. Then, we mentioned that with pricing holiday, Valentine and Easter, we're capturing at least another 10 points. There are certain parts of season, some of the everyday items, that got priced along with prior instant consumable pricing actions. So, at this point in time, with this recent pricing action, we really have priced almost all of season in the past year or so here.

Andrew Lazar

Great. Thank you very much.

Operator

The next question is from the line Robert Moskow with Credit Suisse. Please proceed with your question.

Robert Moskow

Thanks for the question, and congrats on a really strong year. You provided some helpful color on your cocoa buying and cocoa liquor and butter, but it sounds like these hedges are protecting you this year. Is there an extensive step-up in 2022, and is it possible that more pricing will be needed when the full effect of the LID comes into play, not just for you, but maybe for the overall industry?

Michele Buck

Steve, do you want to talk about that?

Steven Voskuil

Yes, I'd be happy to. I don't want to get too far ahead and get into 2022. Obviously, I think, as we've said in the past, our range of hedging could be anywhere from three months to 24 months, and that flexes across commodities, but I don't want to get too specific in '22, but, as we know, hedging helps smooth impacts over time. At the end of the day, as the LID flows through and sticks, then, eventually, that's going to come into play at the cost, and so hedging can smooth that out, but, to the extent, the cocoa price picks that up, eventually, that comes through. Now, that ties into the broader strategy Michele just talked about in pricing and looking at the overall P&L, and other things, like cocoa sourcing and recipes, and things of that nature.

Michele Buck

Rob, let me just clarify one thing. The LID is fully in play this year, so the hedges don't really impact that at all. Part of what's offsetting that is the hedges we had even possibly prior to the LID going in or taking advantage of dislocations in supply and demand throughout the course of 2020. There were times when the cocoa market had come down for beans, and things like that. So, that's really there. Just to be fully clear, though, the LID is 100% in the cost base for 2021, but you have some of those hedges with supply and demand imbalances, as well as that cocoa butter dynamic, which is really where the offset is. As you think about '22, those will be the two variables to kind of keep an eye on, of what could cause those costs to change more so than the LID.

Steven Voskuil

That's right.

Robert Moskow

Okay, I'll follow up on that. Maybe one follow-up. Can you give us a sense of where you think inventory levels are right now at the trade, are you still a little bit below normal inventory, are you at normal, and maybe a little more color on—I think in the prepared remarks, you say you might ship above consumption in the first half and below consumption in the second half. Steve, can you help us a little bit more on that?

Steven Voskuil

Yes, that's exactly right. We ended the year with inventories in the trade a little below historical averages. As we look to the next year, we see that could be a bit of a tailwind in the first half and a headwind, perhaps, in the back half of the year.

Robert Moskow

Okay. All right, well, thank you.

Operator

The next question is from the line of Alexia Howard with Bernstein. Please proceed with your question.

Alexia Howard

Good morning, everyone.

Michele Buck

Hi, Alexia.

Alexia Howard.

Hi there. It seems as though the top line, particularly, came through better than expected versus the guidance that you gave you last quarter. I'm just wondering what was favorable versus where you were three months ago, in terms of how the results came through in the fourth quarter, and then I have a follow-up.

Michele Buck

Sure. Alexia, the most significant portion of our over-delivery in Q4 was seasons, it was probably about two-thirds of our over-delivery, and I would call it somewhat one-time in nature, if you think about it. There were two parts to that. One was we did have retailers requesting early shipment, so they could make sure that they had adequate supply as they came into 2021, so those shipments were incremental, and then we also had exceptionally strong sell-through both for Halloween and for holiday, and that has kind of a knock-on effect, where we then had less discounting required post the holiday and less cannibalization of the everyday business, so you kind of get back to the everyday business even more quickly. Those investments and the focus that we put both in terms of media and in-store merchandising to drive category growth during the season really paid off for us, but that was kind of the single, biggest factor that was different than we had anticipated.

Alexia Howard

Great, and then as my follow-up, I just wanted a little bit more color on China. You talked about the change in the go-to-market model there, and I think you're talking about using local distribution to get the product out. Is that instead of going through the retailers or is this—I just wanted to understand a little bit better exactly what the changes are over there; and, also, how big is China today as a percentage of overall sales? Thank you, and I'll pass it on.

Michele Buck

Really, the shift is relying less on a large owned retail salesforce and, instead, really focusing more on a master distributor type of arrangement, which is just more efficient and more effective. Clearly, we will give up some level of sales, there will be some slippage in taking that approach, but we think it is the most efficient and effective way for us to get our product to consumers.

Then, relative to the size of China, Steve, do you want to hit that?

Steven Voskuil

Yes. Today, it's about 0.6% of Company sales. I think, in the past, if we go back to early '20, we probably said it was about 1% of sales, and if you think about between then and now, you've got two things. Obviously, COVID had a pretty big impact on that business for us in the first half, and, again, particularly because we were concentrated in the gifting space, which was hit early last year, and then the second piece is part of moving to the new model and some of those transition changes.

Alexia Howard

Great. Thank you very much. I'll pass it on.

Operator

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

Michael Lavery

Good morning. Thank you. I'm just curious to get a little better sense of some of the sustainability of your share gains, and just would love to understand how much you feel like it's innovation-driven, execution-driven, is it the higher marketing spending? It's probably all of those, but is it—how much of the marketing efficiencies you saw last year are you still seeing, and is that an important piece of what's driving some of the share momentum in '21? How should we just think about all that together?

Michele Buck

Sure. I think our share gains really are, as you mentioned, a factor of many different components coming together. First of all, we do have incredibly strong brands and very strong operating capabilities and executional capabilities. I think, as I look at the year, we've got a broad portfolio and we are able then to leverage that portfolio and pivot as needed to whatever occasions are resonating most with consumers and families right now. Certainly, this past year, there were a lot of those at-home occasions, things like S'mores, where people were staying home, being with their family at home, in a smaller environment, doing movie nights, you know, products like Twizzlers, and seasons turned to be incredibly important for consumers during this very difficult time, where they wanted to cling to as much normalcy as possible, and the seasons are really about traditions and rituals and connections with family and close friends.

As you mentioned, we also made strong investments over the past several years in a lot of capabilities that allowed us to understand consumers, improved our ability to forecast where consumers we're going to go, and then really execute well in our supply chain, apply data and analytics to our sales and retail coverage, data and analytics to our media, in ways that we believe some others can't.

Early on, we had discussed with all of you that we made that decision to lean in and capture opportunities as much as possible during COVID, take the opportunity to create new occasions for consumers, and really partner with our retailers to make sure we were there for them when they needed us, with our retail sales folks in stores stocking shelves, and meeting their product needs when some others couldn't. Clearly, all of those things together were really important for us.

Now, as we look at that, I would say, we, in the past, typically, might gain 10, 20 basis points of share in a year. Obviously, this year, 160 points of share, and 130 on our chocolate business, where we already have a 45% market share. As we look into 2021, we believe that the share growth will continue prior to the lap, which is really basically up to Easter, and post-Easter, we believe that share will moderate as we lap those '20 gains, but it's going to be our goal to profitably sustain as much of the share as we can going forward.

Michael Lavery

Okay, thank you, that's helpful color, and just a follow up on your portfolio shaping. You mentioned in the prepared remarks an interest in better-for-you. Obviously, some of how you're doing that is thins and portion sizes that are organic-type driven, but as far as M&A, how should we think about, maybe in broad strokes, what to expect from any bigger push into better-for-you there?

Michele Buck

If you look at our M&A strategy, clearly, it is focused on us capturing incremental snacking occasions. Some of the ways that we look at that is, clearly, we do have a pretty sizeable business in sweet, indulgent-type products, and as we look at consumers' broad snacking needs, clearly, salty, savory and better-for-you are opportunities where our portfolio is underdeveloped. If you look at our past history of acquisition, you would see that many of our acquisitions have been focused in that space. SkinnyPop is a great example of that. So, clearly, that is a focus area for us within our M&A strategy.

Michael Lavery

Okay, great. Thank you very much.

Operator

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

David Palmer

Thanks, and congratulations on the year. Could you comment specifically on how much you think of your share gains this year, or this last year, 2020, was because of the supply chain advantages you might have had versus the competition? If it were supply chain, or at least mostly supply chain, you would have expected diminishing share gains through the year, but the opposite seemed to have been the case, and I have a quick follow-up.

Michele Buck

Yes, I mean, it is difficult in a year like this past year to precisely pinpoint exact amounts to any one factor, just because there was so much going on. I mean, clearly, we know supply chain was a piece of it. Frankly, though, we also believe how we pivoted our portfolio and really shifted spending and shifted focus on our portfolio to the exact right items that consumers were looking for, the role that we were able to focus on with seasons and how much that resonated with consumers during that time, so it's difficult to pinpoint. There were opportunities for products on shelves. So, I guess I would say—I think it's fair to say some of that was probably short-term benefit, and then there are other components that have somewhat of a longer-lasting effect. For example, if you do well in a season one year and your sell-through is quite strong, typically, the buy that you get from retailers the next year tends to be pretty strong, as well. If you're able to gain shelf space and get incremental items on shelves, typically, if they're performing well, you have the opportunity to keep them on a sustained basis. While some of the benefits, I think are short term, others will have that enduring effect.

David Palmer

Got it, thank you, and just a follow-up on some of the comments you made about the advertising spending as a percentage of sales going up in ’21. Clearly, there’s been a lot of changes out there in terms of the depth of digital marketing and the perhaps more exact return on investment you can get or calculate from those. I’m wondering, at this point, after many years of declining not just for Hershey, but for the industry, ad spend has come down as efficiency was more the focus, do you think that you can get to a point where you can get a flywheel going, where you spend as much, or maybe even lean in, on advertising as a percentage of sales, as you get a better sense of the returns on these types of spendings? Thanks.

Michele Buck

Yes, I mean, our approach on media spend is this is a category and we have brands that are incredibly responsive to media, and if you look at ROIs on media being driven by scale, profit margin and lift/responsiveness, we win on all three of those. We are one of the highest spenders on advertising as a percent of net sales within the industry, and we really believe in that. At the same time, we challenge ourselves constantly to get more from our money. Over the years, we have transitioned from 100% television advertising, probably, 12 years ago, to we are now down to, probably, 40%. I think about 60%, 65% of our spending is digital.

Now, the other factor that kind of plays in—in addition to being more efficient through digital, which has enabled us to do a lot of very targeted things, such as targeting media based on how sell-through is during a season, or targeting zip codes, etc., you have the other factor going on, which is media, the cost of media in the marketplace, and inflation, and kind of playing through that.

If you think about 2020, our spending was down a little bit because we pulled back on some parts of the portfolio that we thought just weren’t relative, like refreshment this year, and so part of our increase is restoring some spend levels in some of those areas, and that’s part of what’s driving up some of our spending, as well.

David Palmer

Got it. Thank you very much.

Operator

The next question is from the line of John Baumgartner with Wells Fargo. Please proceed with your question.

John Baumgartner

Good morning, and thanks for the question. I guess, first off, Michele, I wanted to go back to the zero sugar product. Can you share a bit in terms of what’s enabling that relaunch? Is there anything there recipe-wise that’s different, and then where do you expect it to price relative to the baseline portfolio, and is it fair to think that it’s at least gross margin neutral relative to the base?

Michele Buck

A lot of the proposition is kind of relaunch, rebranding, to think about this as a product that we launched many, many years ago more as sugar-free for diabetics, which is what that was about, I don’t know, call it 20 years ago, probably, and, really, the bulk of the relaunch is about repositioning sugar-free in a way that is more contemporary. Look at beverages and zero sugar, and lots of other categories, I mean, those products are just positioned entirely differently, in a much more contemporary way, and that's really our goal. We actually think that the products are pretty good-tasting, too, and we're getting good response from consumers, but it is a lot about the repositioning of them.

I'm sorry, what was the latter part of your question?

John Baumgartner

Just in terms of the profit contribution, is it sort of at least neutral from a gross margin perspective relative to the base?

Steven Voskuil

Yes, it's in the same zip code, and I'd say the repositioning isn't going to be a whole new P&L there.

John Baumgartner

Okay, great, and then just a follow-up in terms of retail assortments. I think part of the strategy has been smarter execution that allows for some muscling out of the sales space, the front end, from lower velocity, lower profit categories for retailers, but I think since COVID, we've seen some pretty sharp declines in distribution points for mints and gum. Has anything changed in that environment, whether it's uptick in hand sanitizers, or anything else, that maybe forces you to pivot in terms of how you're thinking about shelf gains at the front end in a COVID world? Thank you.

Michele Buck

No, I mean, I would say mints and gum, clearly, there was pressure on mints and gum relative to COVID as a segment, but part of what you might be seeing is how frequently something scans versus high frequency, which can sometimes impact what distribution actually looks like. Sometimes, it's there and not scanning. We haven't had any kind of material changes in our brands and portfolio broadly. We feel pretty good about our portfolio. It's largely focused on Ice Breakers as a key brand, which has strong points of competitive differentiation in the product and does well in the brand. So, we're feeling pretty good about where we are in distribution, overall, for us and our brands.

John Baumgartner

Okay. Thanks, Michele.

Operator

The next question comes from the line of Chris Growe with Stifel. Please proceed with your question.

Chris Growe

Hi, good morning. I just had two follow-on questions for you, if I could. I'm just curious—Ken asked earlier about the incremental shipments that occurred in the fourth quarter. Is it as simple as looking at your consumption and comparing that to what you reported to understand how much that seasonal shipment pattern changed, or were there other factors, inventory replenishment, that kind of thing, and I think you mentioned that in some non-measured channels, that may have affected your shipments in the fourth quarter?

Michele Buck

Yes, non-measured was the other piece. Seasons was the biggest component, non-measured channels, which we believe was driven by inventory replenishment. There was also the minor area of there were more shipment days in Q4 versus the prior year, and so that contributed, as well.

Chris Growe

Okay, thank you, and then just another follow-on in relation to the international division. Do you expect international sales growth this year? You talk about achieving market stability in 2021. I guess I'm curious, also, on that question, excluding China, so understand kind of how the other markets are faring given the uniqueness of China?

Michele Buck

Yes, we do expect modest international sales growth, which ex China would be even higher. As we discussed, we'll be living through some changes, the impact of some of the changes in the model, but we do expect modest growth internationally.

Each market is a little bit different. We continue to feel good on a long-term basis about international. It's an important part of our business. It drives incrementals. It's an incremental source of growth for us. Then, as I said, each market is a bit different. In India, we saw some nice rebound and a strong finish to the year, while, certainly, earlier in the year India suffered through a lot of COVID-related pressure. In Brazil, constant currency sales were good, they were double-digits, but FX has been a challenge. Mexico really is the market that has tended to have continued COVID pressure, where the category sales have remained soft, even though they are improving, and a lot of that is driven by two factors: store declines, traditional trade store closures, and less of those family celebrations where chocolate has traditionally played such an important role. So, it's a little bit of a tale of multiple cities as we look at each piece around the world, but, in totality, will lead to modest growth.

Chris Growe

Okay. Thanks for all the color.

Operator

The next question is from the line of Jason English with Goldman Sachs. Please proceed with your question.

Jason English

Hey, good morning, folks. Thank you for sliding me in, and congrats on a strong finish to the year. A couple of quick follow-on questions. We've obviously already covered a lot of ground. First, in response to one question—I forget who asked it—in terms of glide path for market share, you mentioned strength up to the period we'll be until after COVID, and then a fade from there. Just for clarification, are you talking about a fade in gains, or do you expect your market share to flip into net losses as you give back some of the outsized gains from the past year?

Michele Buck

I would say our goal, we expect we will continue to gain share through the lap, and then once the lap hits, we are going to be focused relentlessly on trying to profitably sustain as much of the share gain that we can. Obviously, it's hard to predict what will happen, what will be going on in the marketplace competitively, etc. Category mix alone could pressure our share a little bit, as gum will likely rebound versus '20, and we are underdeveloped in gum, so that mix shift alone puts a little bit of pressure, and I guess that's the only specific thing I'd call out. We will be executing. It's one of the reasons, as Steve mentioned earlier, that we are really making sure we have significant investments this year, so that we invest into trying to maintain those share gains.

Jason English

That's helpful, thanks, and one more related follow-on. I think, in response to Mr. Modi's question, you mentioned that you held your trade spend flat for the year. It's our understanding that some of your competitors did not do the same, that they actually pulled back on some trade and pulled back on some merchandising activity, suggesting that you likely gained share of trade spend, share of merchandising and share of activity in marketplace. Is that understanding well placed or misplaced, and if it is sort of the reality of what happened last year, any indication that some of those folks who pulled back may be leaning back in?

Michele Buck

It is a fair statement that some of—we won some competitive merchandising, absolutely, as we had good product to deliver to—really, deliver for retailers and for consumers, but we really won share in every aspect of the business, velocity, promotion, shelf space, seasons, so pretty much across the board our share gains were pretty pervasive.

Jason English

Yes, well done. Thanks a lot. I'll pass it on.

Operator

Thank you. The next question is coming from the line of Bryan Spillane with Bank of America. Please proceed with your question.

Bryan Spillane

Hey, good morning, everyone. I guess just two quick ones on capital allocation. First, share repurchases, I think in the prepared remarks you talked about '21 kind of being a more normal year, so are share repurchases or reducing the share count part of the build to the earnings growth for '21? Do share repurchases create any of the earnings leverage?

Steven Voskuil

Yes, they do. Again, more going back to a historic level, you know, recent history. Last year was unusual on capital allocation on a number fronts, just being cautious on share repurchase, among other areas. As we look to '21, and plan this year, we're expecting share repurchase to revert to a more normal level.

Bryan Spillane

Okay.

Steven Voskuil

Our goal is not to warehouse cash. At the end of the day, we want to deploy it for profitable growth, and share repurchase becomes one lever in creating some good, constructive tension in that equation.

Bryan Spillane

We'll warehouse some cash for you in our living room, if you'd like. Capital spending, I think we're going to be at $550 million for this year, and maybe can you remind us—I know it's been elevated because you've been investing in some capabilities and some manufacturing capacity—just kind of where we are in this Capex cycle, and is $550 million kind of a good number to run out going forward, or is that still kind of reflective of a more elevated capital spending?

Steven Voskuil

Yes, it's more elevated. The answer is somewhere in between. If you remember, last year we started targeting $450 million to $500 million for Capex. Again, one of the areas we were a little bit cautious on was projects last year, and with COVID and pressure on resources, we had to reprioritize some things last year, and the net effect of that was a little bit less Capex in '20, and that Capex pushing into '21. For the main projects, they're two of the biggest, ERP being one and work on supply chain, the total project costs didn't change, and so it shifted more into '21, and, therefore, you can imagine some shifted into '22, as well. But, this year is unusually high. I think we're going to see elevated Capex sort of above our long-term algorithm, probably, through '23, '24. We're going to talk a little bit more about that in CAGNY in a few weeks, we'll give some more color on capital and where it's headed, but I would expect an elevated level for the next couple of years, before we get back down to what's inside of our algorithm.

Bryan Spillane

Okay, and then just last one, tied into capital allocation, maybe a bit of a follow-on to the question that was asked earlier about M&A. With interest rates being so low, it sort of changes the deal dynamics a little bit, right? We've seen a couple of acquisitions, either rumored or on the tape, in the last few months that are very accretive because we're borrowing at under 2%, and in some cases it's under 1%. So, with that kind of backdrop, does that at all impact maybe the appetite, both in terms of just doing deals, but also size? We've got this unusual opportunity, there's plenty of liquidity. Does that at all kind of change maybe the way you're thinking about M&A today versus, you know, what it might have been a year or two ago in a different environment?

Steven Voskuil

Sure. I'll start and Michele can add on. I think, from an appetite standpoint, we have the appetite, and the second piece is we have a great balance sheet. We generate a lot of cash, we've got flexibility, we like where we're at, and so we're poised for the environment that we're in. I think Michele did a great job earlier kind of pointing to where those hunting grounds are. We're aware of the external environment and where interest rates are and what may or may not be hitting the market, and we want to be able to participate in the growth, just like everybody else.

Anything to add to that, Michele?

Michele Buck

No, I think well said.

Bryan Spillane

All right, great. Thanks, everyone.

Operator

The next question is coming from the line of Ken Zaslow with Bank of Montreal. Please proceed with your question.

Ken Zaslow

Hey, good morning, everyone.

Michele Buck

Good morning.

Steven Voskuil

Good morning.

Ken Zaslow

Can you talk about your pipeline for packaging innovation, how that should impact pricing, not just in 2021, but also 2022, and how deep it is, and just the thought process on packaging innovation and the pricing that's assigned to that?

Michele Buck

When we think about packaging innovation, we think about pack types which are designed to meet specific consumer occasions. For me, I would encompass it as part of kind of price pack architecture, which is as we look to capture incremental consumer occasions, how do we have certain packs that enable that, so that there is a value to the consumer, that our products now better meet an occasion or a need. If you go back and look at—we went through lay down to stand up bags. Not only was it easier to shop on shelves, but it was also, once it got into the home, in the pantry, much easier to use, much easier to see, less messy, those types of things. We will look at pack configurations in terms of size, like is there a smaller size that is used for certain occasions or certain demographics versus a larger pack, and we'll do that on a brand-by-brand basis. So, I would say that our pipeline is largely kind of focused on what we would say price pack architecture. As such, what we try and do, from a strategic perspective, is make sure that we are at least margin neutral. I mean, that would be our goal. If we can get price realization, obviously, that's the focus, but short of that, we want to be margin neutral.

Ken Zaslow

Great, I appreciate it. Thank you very much.

Operator

The next question is from the line of Rob Dickerson with Jefferies. Please proceed with your question.

Rob Dickerson

Great, thanks so much. In the prepared remarks, you had mentioned the bar business, just naming one as the brand, and you stated that it seemed some, maybe, retailers shifted space to protein drinks and powders, right, just to meet the COVID demand shift, but then also, kind of given the discussions with retailers, the expectation is kind of that bar business would come back. I'm just asking, kind of broadly speaking, as you look at that bar category, relative to protein shake powders, are those conversations with retailers fairly pointed, such that they are suggesting, "Oh, this is what we're doing for this period of time, but as we get through, let's say, Q2, or what have you, we would look to reallocate back to certain brands and certain bars," or is this kind of more of, "Yeah, it's going to probably come back, but let's kind of wait and see how everything develops," and that's kind of a question, I guess, for bars, but then also, more holistically, for the entire store.

Michele Buck

Yes, I mean, I think retailers, they're always looking to try and optimize their space according to what the current consumer demand is, and so—hey, nobody knows how long—what the curve of the pandemic is going to look like, so I can't tell you a specific time when it will shift, and, obviously, it will shift at different times with different retailers, too, based on who their consumers are. I would say we have a definitive timeline and we are focused on, one, how we make sure that we've got the right support behind a brand and the right innovation, relative to minis, which we think is a big idea, and also plant-based, which are on-trend, so that as the category does come back, we are well positioned to capture that.

Rob Dickerson

Okay, fair enough. Then, I'm fairly impressed with all the different areas that you're focused on in '21, right, and kind of on the go-forward, where you're talking about a little bit more sugar-free, potentially. Obviously, there's the ESG angle, and you've got some plant-based innovation, maybe, more on the bar side. You've mentioned before either touching, potentially, increasingly into baked snacks. So, I guess, Michele, the question is—as you step back, it seems like Hershey continues to evolve into more of a broader snaking business, obviously, outside of the core chocolate confection. So, as we get through '21, and think about '22, very simplistically, would you argue that the point here is to kind of get Hershey bigger in the store in a bunch of different areas, such that you are increasing overall distribution points on the go-forward, you know, for broader Hershey, or do you feel like, as you step back, for the Company, yes, obviously, you're looking for increased distribution, but maybe there's a little bit of infill on a SKU, maybe, on sugar-free, and maybe you take one out in Kisses. I'm just to right-size kind of that increased distribution opportunity given all the different spaces that you're focused on. Thanks. That's it.

Michele Buck

I guess I would say, first and foremost, our number one priority is always our core confection business, because it is the mothership, it's our profit engine, we have tremendous strength, it's growing within consumer demand, and so we always start there, and then with that as the foundation, we really look across all the capabilities that we have as a company relative to consumer insights, to taste science, to ubiquitous distribution, all of that, and say how can we leverage that to capture more and more incremental consumer occasions, and so I think that's where you see us with a targeted focus on, okay, something like better-for-you should capture an incremental occasion and incremental consumer. So, I would think about that as kind of more incremental. Then, if I look at flavor variety on the core, to me, that's a little bit more where we rotate in, we rotate out, we've one slot for that, but it's not a permanent incremental. Some of our expansion into other categories, i.e. better-for-you and savory, yes, I look at those as gaining incremental distribution points more broadly in the store by meeting incremental consumer occasions. So, I think incremental occasion is important for us, leveraging the capabilities, and then, importantly, making sure that we do a very measured expansion. We want to focus on confection, add an area, and then really play to win there, and make sure we don't spread ourselves too thin, similarly to what I would say we do international, where we have a focused, select set of markets that we prioritize, that we really want to play to win, as opposed to spreading ourselves too thin.

Rob Dickerson

All right, great. Thanks so much.

Operator

Thank you. At this time, I'll turn the floor back to Melissa Pool for closing remarks.

Melissa Poole

Thank you so much for joining us this morning. I will be available throughout the day to answer any follow-up questions you may have.

Operator

Thank you. This will conclude today's conference, you may disconnect your lines at this time. Thank you for your participation.