S&P Global
Market Intelligence

The Hershey Company NYSE:HSY

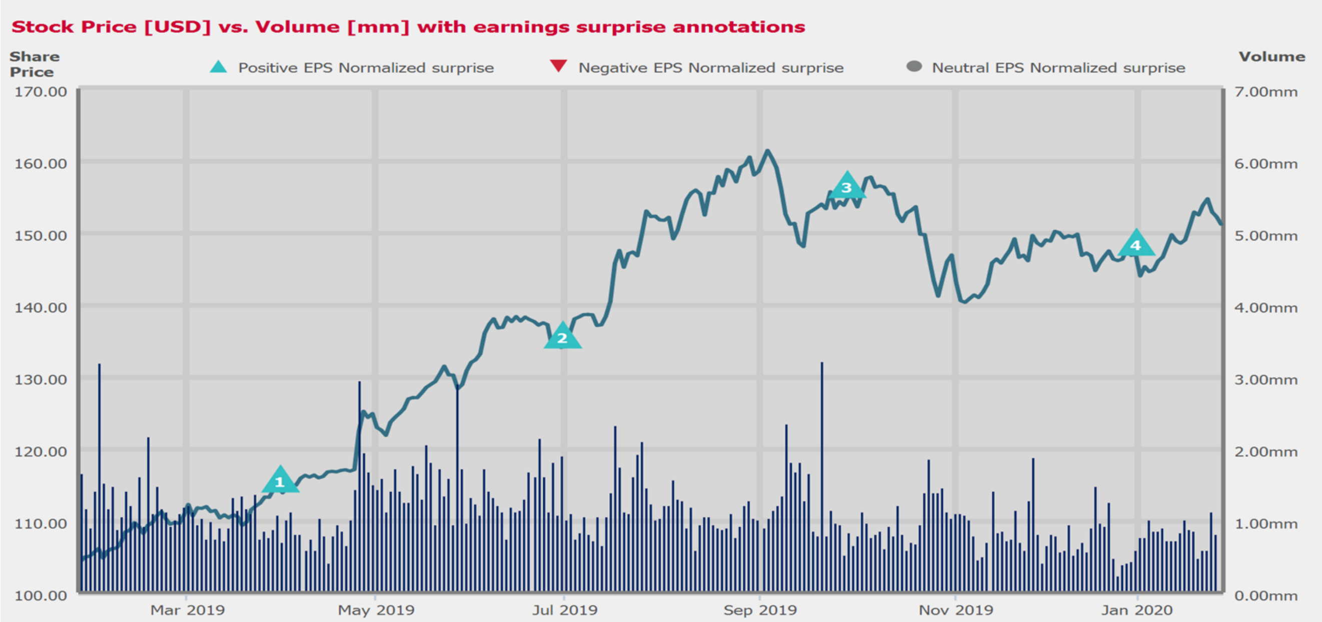
FQ4 2019 Earnings Call Transcripts

Thursday, January 30, 2020 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-			-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.24	1.28	▲3.23	1.70	5.74	5.78	▲0.70	6.17
Revenue (mm)	2063.93	2068.12	▲0.20	2073.29	7976.72	7986.25	▲0.12	8215.47

Currency: USD
Consensus as of Jan-30-2020 12:47 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	1.46	1.59	▲1 8.90 %
FQ2 2019	1.17	1.31	▲2 11.97 %
FQ3 2019	1.60	1.61	▲3 0.62 %
FQ4 2019	1.24	1.28	▲4 3.23 %

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Call Participants

EXECUTIVES

Melissa Poole
Vice President of Investor Relations

Michele Gross Buck
Chairman, President & CEO

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

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Jonathan Patrick Feeney
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Jefferies LLC, Research Division

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Presentation

Operator

Greetings, and welcome to The Hershey Company Fourth Quarter 2019 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ms. Melissa Poole, Vice President of Investor Relations. Thank you. You may begin.

Melissa Poole
Vice President of Investor Relations

Thank you. Good morning, everyone. We appreciate you joining us for the Hershey Company's Fourth Quarter 2019 Earnings Conference Call and Webcast. Michele Buck, Chairman of the Board, President and CEO; and Steven Voskuil, Senior Vice President and CFO, will provide you with an overview of our results by Q&A session.

Before we begin, please remember that during the course of this call, we may make forward-looking statements within the meaning of the federal securities laws. These statements are based on our current expectations and involve risks and uncertainties that could differ materially from the actual events and those described in these forward-looking statements contained in our 2018 10-K filed with the SEC and today's press release.

Finally, please note that on today's call, we will 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. Please refer to today's press release for a reconciliation of the non-GAAP financial measures to the most comparable measures prepared in accordance with GAAP.

With that, I'd like to turn the call over to Michele.

Michele Gross Buck
Chairman, President & CEO

Thanks, Melissa. Good morning to all of you on the phone and webcast. We had a strong 2019, with accelerated business performance and differentiated financial results. This was driven by momentum in our core U.S. confection portfolio in both retail takeaway and margin expansion, by incremental and profitable international growth and by further expansion of our snacking portfolio. And we continue to invest in our brands, capabilities and people. I'd like to extend a sincere thank you to our employees and all of our partners for their hard work to make this possible.

For the full year, we delivered net sales growth of 2.5% and EPS growth of 7.8%, a testament to our strong brands, business model and a commitment to balanced top and bottom line growth.

Constant currency organic sales growth of 1.8% was ahead of expectations, driven by incremental pricing and core-based strengths of our U.S. confection business. These gains drove stronger-than-anticipated gross margin expansion of over 100 basis points for the year, which enables incremental investments in our brands and employees and enhanced earnings for our shareholders. We are pleased with the consistency of our results throughout the year and the momentum we are taking into 2020.

In the fourth quarter, net sales grew 4%, behind 1.9% organic constant currency growth, and our gross margin expanded 96 basis points. For the full year, our Hershey candy, mint and gum, retail sales increased 2.6%, resulting in a category share gain of approximately 10 basis points. While a long Easter contributed to this performance, we also finished the year strong, with retail sales growth of 2.8% and a category share gain of approximately 20 basis points in the fourth quarter. As was the case with the entire year, this growth was driven by balanced activation across the portfolio. And we are seeing the benefit from our investment in marketing spending carrying through to retail performance.

Our Reese's brand continued to outperform the market, with growth of over 6% in the fourth quarter, driven by great advertising, innovation and strong in-store execution. Kit Kat grew 2.3% in Q4, behind incremental capacity and our new Kit Kat Duos innovation, which launched late last year. Early results of this innovation are encouraging, and we expect continued momentum in this brand in 2020.

Our media and packaging investments on our mid-tier iconic brands also drove strong growth: with Payday, up over 8%; Almond Joy, up 6%; Rolo, up 5%; and Heath, up 35% in the quarter, resulting in a combined share gain of 20 basis points.

Pricing remains an important lever for us in the fourth quarter. Net price realization of approximately 4 points in Q4 was slightly ahead of expectations as we began to see a benefit from our most recent price increase announced in July of 2019. And we expect this to continue in 2020, with planned price realization of 2 to 2.5 points on our U.S. confection business in the U.S. for the year.

As we look to 2020, we have another great year of activations planned within our confection business. In just a couple of days, for the first time in brand history, Reese's will be running an advertisement during the 2020 Super Bowl. This will be a great opportunity for America's #1 confectionary brand to increase awareness of one of its best-tasting, highest consumer-rated item in the portfolio, Take5. As we had shared with you last year, our relaunch of this item is off to a strong start, and we're excited to build on this with an ad during America's most watched sporting event and additional in-store merchandising and distribution.

We are also excited about our product innovation for 2020. In addition to our Kit Kat Duos innovation, we are excited to announce the expansion of our THiNS platform in 2020. York THiNS and Reese's White THiNS will launch in March and will be able to -- and both the -- will be available in both the take-home and peg formats. This provides York lovers a unique way to enjoy one of their favorites. And it enables us to secure strong year 2 merchandising for our core milk and dark Reese's items that we launched this past year.

Our snack portfolio also delivered solid growth in the fourth quarter. SkinnyPop ready-to-eat popcorn retail sales grew over 13%, resulting in a category share gain of 170 basis points. And as expected, Pirate's Booty performance accelerated as we began to recapture distribution lost earlier in the year and had strong promotional activity behind our on-pack Disney promotion. Retail sales grew 1.4% in the fourth quarter and over 4% in December. Our most recent acquisition, ONE Brands, grew 35% in traditional measured channels, with additional strength in non-measured channels such as e-commerce.

Now for an update on our international markets. We have made significant progress over the past several years by focusing on branded, high-margin products, streamlining our operating model and rightsizing our investments. Since we began this journey at the beginning of 2017, we have increased our segment income by $125 million over the past 3 years, while continuing to grow our organic constant currency net sales. This is a significant accomplishment made possible by the hard work and dedication of many employees around the world. A sincere thank you to everyone who helped drive this business transformation and financial performance. Our international business provides us with important geographic diversification and incremental growth, and we are excited to build on this progress with another year of profitable growth in 2020.

In Mexico, we will continue to focus on increased distribution and innovation on our Hershey's and Pelon Pelo Rico brands. After strong test results last year, we will be launching a new business model more broadly in 2020, aimed at securing incremental and profitable distribution in traditional trading. Additionally, we will continue to innovate with new flavors and packaging to drive growth in our existing channels.

In Brazil, despite a continued heightened competitive environment, we delivered profitable growth in the fourth quarter. Our dark chocolate Hershey's portfolio has performed very well, and we are excited to bring new innovation within that platform to market in 2020. Additionally, we are focused on growth in nontraditional retail channels, and we're expanding a successful 2019 test to more regions this year.

In India, our national Kisses launch remains on track, and we are leveraging important learnings from our regional launch last year to further optimize the proposition as we expand in 2020. We continue to see this market as a strategic growth vector for our business.

In China, we had a strong finish to the year, and we plan to build upon last year's successful [Flavors of Life] promotion with new varieties in 2020. Due to the timing of Chinese New Year in 2020 and 2021, we expect 2020 shipments to be slightly pressured, but we continue to feel good about our in-store activations and our base business momentum.

In summary, we're pleased with our performance and believe we will deliver another year of high-quality financial results in 2020. We are proud of what we have accomplished and the momentum we are seeing on the business, but we also recognize we must continue to adapt and invest to elevate the business further.

Over the past several years, we've invested in incremental capacity and planning capabilities. I am pleased by the progress that we've made here and the opportunities that this has unlocked for us. In 2019, we delivered our best case fill rate in a decade and saw meaningful increases in our advantage survey rankings. Since 2017, our supply chain ranking with our customers advanced from #15 to #4, and our customer service is now ranked #1 amongst our peers, up from #12 just 3 years ago. We will build on this with additional investment in our supply chain capabilities over the next several years.

As a part of a multiyear capital project, we will add additional capacity for our largest and fastest growing brand, build agile fulfillment and late-stage customization capabilities and invest in new data and technology within our supply chain that increases visibility, automation and digitalization. We believe these investments will enable us to respond to changing needs from both our consumers and customers while maintaining our advantaged margin profile. We look forward to sharing more details about this at our Investor Day in March.

In addition to investing to advance our business capabilities, we are also very focused on elevating our talent and culture. In December, I announced several organization changes that I believe will enable us to take our business to the next level.

Chuck Raup has been promoted to President U.S. Chuck is a proven, results-driven, commercial operator with a successful 10-year track record at Hershey, most recently, leading the acceleration of our U.S. CMG business. Chuck's deep expertise across snacking, having led all areas of confection at Hershey and from his previous experience at Kraft, will be instrumental to our future success as we pursue our strong growth ambition across traditional and digital channels.

Kristen Riggs has been promoted to Chief Growth Officer. Kristen started with the company more than 14 years ago and has worked across nearly all commercial functions. Her focus on driving growth is underpinned by a strategic and analytical understanding of the modern consumer, strong marketing expertise and a tenacity for creating positive change in the organization. Together, the U.S. business and growth office will work seamlessly to ensure the delivery of both 2020 and our growth plan over the next several years.

And finally, Chris Scalia has been promoted to Chief Human Resources Officer. Chris joined Hershey in our Legal Department in 2005 and transitioned to Human Resources in 2011. Since that time, Chris has led talent management, recruiting, HR operations and business partner teams as well as workforce development. Chris brings a strong commercial business acumen,an analytical rigor to talent planning and development and a passion for how people and culture drive performance. These changes are a testament to Hershey's talent development and succession planning, and I couldn't be more excited about the opportunities ahead with this tremendous talent across the organization.

Thank you to Todd, Mary Beth, Kevin and Terry for all their contributions to our success over the past several years. I'll now turn it over to Steve, who will provide you with details on our financial results. Steve?

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Thank you, Michele, and good morning, everyone. It was a strong year and quarter, and we are pleased with the quality of delivery across our segments. North America achieved net price realization and operating leverage, enabling incremental investment in brands and capabilities throughout the year. We saw consistent, solid retail takeaway on our core confectionary brands in the U.S., and our international business delivered another year of incremental profitable growth. We feel good about the momentum we have heading into 2020 to deliver an on algorithm year for both top and bottom line.

Fourth quarter net sales increased 4% to $2.1 billion versus the same period last year, with a slight headwind from foreign currency exchange. The net impact of acquisitions and divestitures contributed 220 basis points of growth. Organic constant currency net sales growth of 1.9% was consistent with expectations and driven by a price realization in the U.S. and volume growth in our international markets. Net price realization for the quarter was 360 basis points, partially offset by anticipated elasticity-driven volume declines of 170 basis points. Adjusted earnings per share diluted were $1.28 for the quarter, an increase of 1.6% versus the same period last year. This was driven by gross margin gains, which were more than offset by increased incentive compensation.

For the full year, net sales increased 2.5%. The net impact of acquisitions and divestitures was a 1 point benefit. Organic constant currency net sales growth of 1.8% was partially offset by unfavorable foreign currency exchange of 30 basis points. The delivery of our net sales and gross margin expansion plans allowed for investment in brands, capability and our employees to drive future growth. This translated to adjusted earnings per share for the full year of $5.78, an increase of 7.8% versus prior year.

In the fourth quarter, our North America segment net sales increased 3.8% versus the same period last year. The net benefit of acquisitions was 250 basis points. Organic net sales of 1.3% was driven by price realization of 400 basis points, partially offset by elasticity-driven volume declines of 270 basis points. Recall, in the third quarter, price realization was approximately 1 point lower than expectations due to the timing related to our July 2019 announced price increase. As anticipated, this headwind reversed in the fourth quarter. Without this timing shift, price realization was approximately 300 basis points, about 50 basis points ahead of expectations as we began to get a slight benefit from our most recent price increase. This incremental pricing contributed to stronger-than-anticipated gross margin expansion in the fourth quarter.

Adjusted gross margins in North America expanded 130 basis points versus prior year. This was driven by net price realization and favorable commodities, which were partially offset by increased logistics and packaging costs, consistent with other quarters. North America advertising and related consumer marketing spend increased 5.1% in the quarter, driven by planned advertising increases enabled by our gross margin expansion.

Fourth quarter international and other segment net sales increased 5.8% versus the year-ago period. Constant currency net sales grew 6.3%, offset by a 50 basis point headwind from foreign currency exchange. Volume was a 5.7 point benefit, and net price realization contributed 60 basis points to net sales growth. Combined, organic constant currency sales, net sales in Mexico, Brazil, India and China grew 6% versus the fourth quarter of 2018, with growth in all markets. International and other advertising and related consumer marketing decreased 11% versus prior year as we continue to optimize investment in these focused markets.

Now turning to gross margin. Adjusted gross margin -- excuse me, adjusted gross profit of $898 million in the fourth quarter increased 6.4% versus prior year. This resulted in adjusted gross margin of 43.4%, an increase of nearly 100 basis points, driven by net price realization and favorable commodities. Fourth quarter adjusted operating profit of $370 million resulted in an operating profit margin of 17.9%, a decrease of 70 basis points versus the fourth quarter of 2018. Gross margin gains were more than offset by higher incentive compensation. This incentive increase was related to a strong 2019 performance and a structural market-based increase of variable compensation linked to company performance for our managers and individual contributors. This increase was planned to occur gradually over the coming years. However, our strong performance in 2019 allowed us to accelerate this change, which we believe is important for retaining and securing top talent in our organization.

As you saw in our press release, reported operating profit in the fourth quarter declined $135 million versus the prior year period, driven by the recognition of a long-lived and intangible asset impairment loss associated with our 2015 acquisition of Krave. While meat snacks remain a growing category, volume has been driven by mainstream and value brands. The premium segment slowed and became even more competitive, which pressured sales and margins. While disappointing, this acquisition was an important step to beginning to diversify our portfolio in the U.S., and we have leveraged the learning to improve the propositions and performance on our more recent acquisitions.

Moving down the P&L. Interest expense of $37 million was in line with the prior year period. Full year interest expense was $144 million, an increase of $5.3 million versus 2018 due to increased debt associated with acquisitions. The adjusted tax rate for the fourth quarter was 9.8% versus 9.5% in the year-ago period. This rate was favorable versus our expectations due to the execution of additional tax credits. For the full year 2019, the adjusted tax rate was 17.4% versus 19.2% in the year-ago period. This full year favorability was driven by excess tax benefits from stock-based compensation and valuation allowance releases in our international markets.

In the fourth quarter, other expense was $34 million, a decrease of $5.1 million versus the year-ago period, driven by non-service-related pension expense. For the fourth quarter of 2019, weighted average shares outstanding on a diluted basis were approximately 210.5 million, reflecting a slight decrease versus the prior quarter. The company did not repurchase any shares in the fourth quarter against our July 2018, $500 million authorization, and $410 million remain. Total capital additions, including software, were $82 million in the fourth quarter, totaling $318 million for the full year 2019. This was slightly below expectations as some of our IS initiatives were delayed due to employee resource constraints related to our large ERP and supply chain projects.

We continue to return cash to our shareholders, with fourth quarter dividends of $157 million. This was our 360th consecutive quarterly dividend on the common stock. We have solid underlying momentum in our core business that we believe positions us well to keep the momentum going in 2020. We expect full year net sales growth of 2% to 4%, consistent with our long-term algorithm. This includes an approximate 1 point benefit from the acquisition of ONE Brands. We anticipate our growth in North America will accelerate versus 2019 as we lap our SKU rationalization program.

While we continue to expect profitable growth in our international markets, we expect the contribution will be lower than 2019 due to less favorable macroeconomic conditions impacting the confectionary category growth. Like 2019, we expect our North America growth to be driven by pricing, while our international growth is expected to be more volume-driven. We expect gross margins to expand again in 2020 but at a slower pace than 2019. While we plan to benefit from slightly more price realization, commodities will change from being a tailwind in 2019 to a headwind in 2020. As a result, we expect adjusted gross margin to expand 40 to 50 basis points.

As was the case in 2019, we will leverage this pricing and gross margin expansion to lean into investments in our brands and capabilities. We expect advertising to grow slightly ahead of sales this year, and we'll continue to invest in data, technology and other initiatives to drive sustainable, profitable growth in the future. We expect 2020 interest expense to be relatively in line with 2019, and other expense to increase $30 million to $40 million versus 2019 as we plan to execute additional tax credits. As a result of these higher tax credit investments, we expect our 2019 adjusted tax rate to be between 16% and 17%. The net impact of investment tax credits and our adjusted tax rate is unfavorable versus 2019 as we lap the onetime benefit of valuation allowance releases.

For 2020, we expect elevated CapEx spending as we advance our ERP transition and initiate a strategic supply chain program. As Michele mentioned, this multiyear capital project will not only add capacity but also give us new fulfillment and technology capabilities that we believe will help us deliver on the needs of our consumers and customers, while maintaining an advantaged margin profile. Given these significant investments, our CapEx for 2020 is estimated to be between $475 million and $525 million.

Our core business sales growth and another year of gross margin expansion are expected to deliver full year adjusted earnings per share growth of 6% to 8%, consistent with our long-term algorithm. Given some of the timing of this year's key initiatives as well as events we are lapping from prior year, we do expect second half financial performance to be stronger than the first half. While we have more pricing in the first half and are lapping our SKU rationalization program, we are also lapping a strong Easter, pipeline fill associated with our packaged candy transition, tax strategies that resulted in a low first half 2019 rate and second quarter margin benefits associated with our July 2019 price increase. Similar to 2019, while these factors create some volatility in our quarterly financial results, we expect retail performance to be more consistent throughout the year and remain confident in our ability to achieve our full year guidance.

We remain focused on delivering balanced growth, with a disciplined approach to building our brands and evolving our business model for the future. We have strong cash flow and a healthy balance sheet, and we'll continue to make the necessary investments to drive the business and deliver long-term shareholder value.

That concludes my financial discussion, and I'll now turn it back to Michele.

Michele Gross Buck
Chairman, President & CEO
Thanks, Steve. I'm proud of what we have delivered over the past several years, and I'm optimistic about 2020 and our future. We continue to operate with a healthy level of dissatisfaction and constantly push ourselves to elevate the business even further. We are excited about the opportunities ahead, and we look forward to sharing more details about our strategic plans in March. Steve, Melissa and I are now available to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Andrew Lazar with Barclays.

Andrew Lazar
Barclays Bank PLC, Research Division

So 2 things for me. First, as we think about some of the various pieces that drove the fourth quarter unallocated corporate, maybe can you give us a sense or help quantify a bit, how much sort of is expected to stay in the base as we go through 2020? And how much, if any, sort of reverses out and perhaps helps to become a bit of a tailwind to 2020 operating income? And then -- and second, I know it's a smaller business, Michele, but your comments on a new business model in Mexico just piqued my interest. I think you were talking about a new model to gain some incremental distribution. I didn't know if that was something along the lines of more of like a partnership or perhaps you can expand a little bit on that? And that's it.

Michele Gross Buck
Chairman, President & CEO

Andrew, why don't I take that one first because I think that's a quick one, which is really the focus there in Mexico is a new model to capture traditional trade. So it is not anything beyond that, but really, it's a focus to go after that traditional trade business.

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes. Just picking up on the compensation on what stays and goes. Just in the fourth quarter, we really had 3 things that rolled in. One was if you look year-over-year, there was a rebate impact on incentives. The prior year period had below-target performance and payout. So in the fourth quarter, you sort of catch up to target. We had then a predicted over target performance and then the market adjustment that we talked about. And clearly, we roll into 2020. That onetime market-based adjustment will go away and so will the performance will reset at a target level. So roughly 50% of that increase will stay going forward, and about half of it will go away.

Operator

Our next question comes from the line of Robert Moskow with Crédit Suisse.

Robert Bain Moskow
Crédit Suisse AG, Research Division

The results are pretty much in line with what we had expected. Maybe incentive comp is a little higher than we thought, but -- so I was just going to jump into CapEx. The CapEx spend is a big step-up. You mentioned it's related to the ERP and supply chain program. Are there any expenses that run through the income statement related to this step-up in your ERP program? Or is this really just a kind of a CapEx kind of effort? And also, what steps are you taking, if any, if you need to mitigate customer service issues?

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Sure. The ERP program has been going for a number of years. And so you're right, there's -- a portion of that CapEx step-up in 2020 is due to the ERP program continuing. There is a portion that hits the P&L. Year-over-year, for '20, it's not a material factor, and it's obviously factored into our guidance. As we get to the March investor conference, as Michele said, we'll talk more about the supply chain project and probably also talk more about the next couple of steps that we expect on the ERP program. But for 2020, it's fully reflected from both OpEx and CapEx.

Michele Gross Buck
Chairman, President & CEO

And we have a big focus on chain management to the end of your question relative to really managing the risks and business continuity during that period of time, and we can talk a bit more about that in March.

Robert Bain Moskow
Crédit Suisse AG, Research Division

Okay. Well, I'll wait until March then.

Operator

Our next question comes from the line of Ken Goldman with JPMorgan.

Kenneth B. Goldman
JP Morgan Chase & Co, Research Division

Two for me. First, the increase in CapEx, does that change your outlook, at least in the short term, on M&A? I know most of the M&A you've been doing is relatively, I guess, tack-on in nature. So my guess is probably you'll stay opportunist, but I was just curious for your thoughts there.

And then my second question is thank you for the guidance on the gross margin outlook. I guess in that guidance, are you assuming any incremental pricing action, whether it's list prices, whether it's reduced promos or pack size changes, things like that? Or is it sort of status quo, and you have all the pricing actions that you need already baked in and hit that gross margin number? And I'm asking because, obviously, cocoa has gone up a little bit, and I know you're hedged there and so forth, but just curious.

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Maybe I'll take the first part of that question relative to -- thinking about M&A relative to the additional CapEx. So clearly, that has an impact on free cash flow. Our capital allocation priorities aren't changing. We continue to look, first and foremost, at funding both organic and inorganic growth, protecting the dividend and obviously watching overall leverage. I would say as we sit here today, we have -- with the incremental CapEx investment, we are not pulling back or looking for potential inorganic opportunities as they come available. We'll always do that with an eye towards leverage and the value proposition for shareholders. So I would say no change in our posture from that perspective.

On the gross margin side, we don't comment about specific pricing actions that we might have planned for the coming year because price continues to be a strategic part of our repertoire of tools to use, along with all the other components. So anything you want to add to that, Michele?

Michele Gross Buck
Chairman, President & CEO

Yes. I would just say, I mean overall, we are expecting price in that 2% to 2.5% range for the year in North America, and our gross margin guidance is consistent with that being a part of it.

Operator

Our next question comes from the line of Alexia Howard with Bernstein.

Alexia Jane Burland Howard
Sanford C. Bernstein & Co., LLC., Research Division

So it seems as though the core business is chugging along. You've got the modest price increases rolling through each year. In terms of the future business development acquisition strategy from here, can you talk a little bit about what the key learnings have been from what's worked with SkinnyPop popcorn and what seems to be improving with Pirate's Booty and maybe some of the things didn't work so well with Krave and Brookside?

And then also maybe just talk about what your priorities are from here. Is it are going to remain within salty snacks in the U.S.? Or are you thinking about more overseas acquisitions? What's the priority list from here? And I'll pass it on.

Michele Gross Buck
Chairman, President & CEO

Sure. So let's start with our overall strategy, which is about capturing incremental snacking occasions. And if you look within that, certainly, the #1 priority is in categories outside of sweet indulgence in the U.S. So both salty snacks, savory as well as we've recently bought the ONE Brands nutrition bar. So I'd say it's largely about better-for-you and savory in the U.S. Not to say that we will not move forward with something in confection, if there's a gap in our portfolio, we will. And we would entertain international acquisition, but our bar is much higher, given the risk levels of that business. And obviously, given we don't have scale internationally, the businesses that make sense for us are just a bit different than in U.S.

Relative to our key learnings, I would say, probably the first and biggest learning is that -- is around selection of assets, that is, we are a branded, high-gross margin company. That is -- those are the kinds of brands we're used to growing and building. SkinnyPop and Pirate's Booty fit right in that sweet spot on both of those elements. And I think especially if we're going into a newer category or segment within snacking, Krave, in particular, was an acquisition that did not meet either of those relative to adequate scale nor adequate gross margin. So I think that's the single biggest learning was that piece of what fits our business model and staying true to that. And then certainly, along the way, I think we learned other things relative to integration and how to get the best of both leveraging our scale as well as enabling some of the entrepreneurial spirit but realizing the businesses we're buying are in a phase of scaling up in growth, and there's help needed to do that.

Operator

Our next question comes from the line of Jason English with Goldman Sachs.

Jason M. English
Goldman Sachs Group Inc., Research Division

I want to come back real quick on the CapEx piece because it's a surprisingly large number. And it sounds like we'll get more detail on where that spend is coming at the Analyst Day. But given that you used to be a lot more into supply chain and you're saying at the same time that your prior margin for growth, productivity savings are poised to step down, is it unreasonable to think that we should expect a larger or some sort of news around renewed productivity goals over the next couple of years?

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes. We're not announcing today any renewed productivity goal. I would say productivity is and will remain a key part of our algorithm inside the P&L. You're right, last couple of years with margin for growth had probably had higher than historically typical productivity. 2020 is down a little bit from that as the kind of peak of that program passes. And we will do as we always do, kind of continue to look for additional productivity opportunities. And some of the improvements coming in terms of fulfillment with the supply chain investment will actually set the future for some more as we go forward.

Michele Gross Buck
Chairman, President & CEO

Yes, a little bit of additional context. You know in the past, we did big supply chain projects, and those tended to be much more focused on utilization of capacity and also margin enhancement. This supply chain project is very much focused on enabling growth and doing so by providing increased flexibility and customization capabilities that will then allow us to meet consumer and customer needs while maintaining the advantaged margin structure that we have.

Jason M. English
Goldman Sachs Group Inc., Research Division

That's good context. I understand a little bit better now. I appreciate that. Switching gears real quick to growth side, so new capabilities to help drive growth. But from a volumetric perspective, there's not a lot of growth right now in your -- at least in your North American portfolio. And I know there some elasticity components there, but how should we think about the growth trajectory for both the category and your portfolio as we track through the next 12, 24 months?

Michele Gross Buck
Chairman, President & CEO

So first of all, we think both volume and price are important to our long-term algorithm. During the years where we have pricing, those years will be much more pricing driven than volume driven. And we do a lot of hard work on our programming to keep our volumes flat during that time. Otherwise, according to the models, we'd actually decline in volume. So we're pleased that we've been able to do that. But over the years, you'll see a bit of both. And as we look at the actual growth outlook, we continue to think that the CMG category is going to grow at that 1.5% to 2% type of range. We believe in 2020 that it will be at the higher end of that range given the pricing in the marketplace, but we believe it will not be as high as 2019, which also had the additional benefit of a long Easter. And we look to grow in line or slightly above the category growth rate.

Operator

Our next question comes from the line of Steven Strycula with UBS.

Steven A. Strycula
UBS Investment Bank, Research Division

Just to piggyback off of Jason's question on the organic sales for the year, how should we think about maybe how the China and Brazil macro situations really kind of play into how you think about the international business? I know it's a smaller part. And then on the U.S. front, anything to comment on SNAP and how that -- any potential developments and legislation might potentially impact that business as you think forward?

Michele Gross Buck
Chairman, President & CEO

Yes. So certainly, we have seen some macroeconomic softness in several of the developing markets in which we participate. As we developed our plans for the year, we tried to take that into account as other factors that were known at the time. Clearly, the coronavirus would be the one unknown that really we didn't have visibility to at the time, and we are tracking that carefully. We do anticipate that will have an impact on our business in China. But as you know, we are predominantly North American-based company, so not as big an impact as we may see from some others. And we are carefully tracking and always do kind of what happens with SNAP at this point in time. We have not built in nor anticipate something significant there, but we'll keep a close eye on that.

Steven A. Strycula
UBS Investment Bank, Research Division

And as a quick follow-up to that, Michele, I appreciate the color for China. As you think about it being a potential impact, as you noted, is it more from a manufacturing standpoint that facilities are maybe off-line until maybe the beginning of February, as is the case for the industry? Or is it more just an early indication that depletion rates in the retail channel are already starting to come in a little bit as travel slows? Any color there would be helpful.

Michele Gross Buck
Chairman, President & CEO

Yes. I would say it's more of the latter, which is our business tends to have a seasonal skew around Chinese New Year. We sold in our volume. And now, consumers are not able to go to retail. And so we are trying to carefully watch what the takeaway will be and any waste implications from the fact that, that portfolio is seasonal in nature. So that's the biggest hit for us.

Operator

Our next question comes from the line of Jon Feeney with Consumer Edge.

Jonathan Patrick Feeney
Consumer Edge Research, LLC

A couple -- a detail question first and then a real question. The detail question is on looking at your takeaway data you gave us, so 2.8% on candy, mint, and gum; 11.3% on salty snacks; 2.5% overall, is it like last quarter where all that gap -- is that all Krave, that -- kind of flushing out of the system? It would be my first question because it would seem to me it'd be something like in the 3s overall, if that wasn't the case.

And second question, real question is, it seems like pricing work a lot better than it used to, and it's worked fantastically at times in the past decade. But it seems like you get it. You see less elasticity. You grow gross margin. Like -- is something just new under the sun here where you have better capabilities and you just price more tactically going forward than used to be? If you get any detail on that, I'd appreciate it.

Michele Gross Buck
Chairman, President & CEO

Okay. So relative to your first question, you're right that there are some of the smaller emerging brands like Krave that are a drag to our total consumption. The other piece is our grocery business, which is comprised primarily of syrup and baking chips. Syrup tends to be a pretty stable business, but baking chips has big promotional windows, and it's very competitive. So we always have decisions to make relative to which pieces of business to go for and which just don't have the profit margins that we're interested in. And so we passed on some less profitable business this year, and that was a drag on our total retail takeaway.

Relative to pricing, I would -- so we think about the impact as being pretty consistent with what we've seen over the years that we've always had a pretty solid ability to leverage price. And we believe that's only though because of all of the investments that we make, with retailers and retail specific programs, the high level of advertising we put behind our brands that creates the brand's value proposition for the consumer that enables that. So -- but we see basically the elasticity is being somewhat in line with what we've seen historically.

Jonathan Patrick Feeney
Consumer Edge Research, LLC

Well, it works, whatever it does.

Operator

Your next question comes from the line of John Baumgartner with Wells Fargo.

John Joseph Baumgartner
Wells Fargo Securities, LLC, Research Division

I guess, Michele and Steve, I'd just like to hear a bit more about the operating leverage, given the importance of that to the P&L. We've seen plant closures over the years. You've had the modernization in Hershey. Now there's talk about, I guess, the smart plants. So as you exit the margin for growth, how do you think about leverage from here? And how large of a contributable manufacturing be, given the increases in capacity, flattish category growth relative to leverage from SG&A at this point? I mean there's a lot of moving pieces. I'm just trying to get a sense for the factors and how that materializes.

Michele Gross Buck
Chairman, President & CEO

Steve, do you want to get that?

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes, I would like to. Driving operating leverage over time is going to continue to be a key part of the algorithm. And so all of these investments, whether we're talking in the manufacturing area or some of the capability investments, all are with an eye towards driving a return over time and ultimately driving leverage. And so some of the investments in digital and data, all have a business case around leverage at the end. And so as we've done in the past, as margin for growth wraps up, we will kind of -- as Michelle said, the past go right back through the P&L and attack each one of those to continue to drive sustainable leverage. Anything to add there, Michele?

Michele Gross Buck
Chairman, President & CEO

No.

John Joseph Baumgartner
Wells Fargo Securities, LLC, Research Division

Okay. And just as a follow-up there. Based on the guidance, it looks as though nonadvertising SM&A for 2020 should increase a fair amount year-on-year. Are there any particular call-outs there in terms of the plan, whether it's in-store programming, sales force feet on the street or anything else worth note that we should think about here?

Michele Gross Buck
Chairman, President & CEO

Our data and technology investments do fall in that line. So investments around ERP, investments more broadly around data and technology when it comes to analytics and how we evaluate the business, new data sources, et cetera, fall in that bucket. That's a significant piece.

Operator

Our next question comes from the line of Rob Dickerson with Jefferies.

Robert Frederick Dickerson
Jefferies LLC, Research Division

I guess first question, Michelle, is just given the amount of investment you deployed over the past, call it, 2, 3 years to now, speaking to the next 2 to 3 years to become more efficient. With that in mind, as we see brand support increase, I feel like at least, usually, that brand support goes to your larger brands? Or just higher margin that are leveraged overall? But you've also acquired a number of smaller companies that are faster growth, smaller, but faster growth, on trend, et cetera. So when you step back and say, okay, we kind of, let's say, we've kind of gotten through the first part of kind of our investment overall supply chain ERP. Now we have further investment. Like should we be expecting increased innovation in the marketplace on brands like Skinny and Pirate's Booty and ONE? And I just ask because they seem to be kind of the on-trend growth of your brands, not as big, but there's a lot of potential there. And I feel like we just haven't seen a tremendous amount of new innovation come out of those brands so far post acquisition.

Michele Gross Buck
Chairman, President & CEO

Yes. No, that's a great question. I would tell you that overall, as we look at growing a business, we do really believe in balanced -- the balance levers we've spoken with you all about relative to distribution, advertising that can drive base velocities, seasonal presence at pricing, et cetera. And so we believe all those levers are important. But at different phases and different brands like different of those levers are more important. So with brands like SkinnyPop and Pirates, in particular, we want to make really sure that we take full advantage of driving the cores on those businesses because they were not at max distribution capacity for what they deserve, given their velocity levels. So making sure that we continue to focus on that core distribution and also that we advertise to maximize household penetration. So there are many brands and confections, where we have 40% household penetration. And it's significantly less on the brands like Pirates or Skinny. So it's intentional that we first focus on the core and that we judiciously add innovation. And we did do that with some seasonal items and some other items, the right flavor profiles. But we think that's a key learning from the past, is to be very measured in the innovation approach. We learned that on some of our early acquisition models, focus enough on the core.

Robert Frederick Dickerson
Jefferies LLC, Research Division

Okay, fair. And then just a quick follow-up. I guess what's implied with further capital spend, especially in 2020 on the CapEx side of overall investment? I'm assuming, as the leader of the company, the expectation is that this does build efficiency, obviously. So essentially, hopefully derisk further acquisitions, even if smaller in scale so basically Krave doesn't happen again?

Michele Gross Buck
Chairman, President & CEO

Yes. We are always focused on making better and better decisions and learning from every action we take in the past. So -- and we feel good about what we're seeing on SkinnyPop and Pirate's, in particular. And ONE is on track, integration and acquisition model wise as well.

Operator

[Operator Instructions] Our next question comes from the line of David Palmer with Evercore ISI.

David Sterling Palmer
Evercore ISI Institutional Equities, Research Division

In recent years, Hershey has been smarter about pricing. You've been smoothing out the price increases in any 1 year, and you've been hitting different parts of the portfolio and using weight-outs and new packaging. But volume is still down. It's down this last quarter. And I'm wondering how you're thinking about pricing power and levers that you might have up your sleeve. Should we get into an inflationary environment, particularly with cocoa into '21, that it looks like it's shaping up to be? In other words, do you think you could defend that 45% type gross margin should we get an outsized lumpiness in inflation?

Michele Gross Buck
Chairman, President & CEO

So of course, we can't really talk about the future pricing actions, but we can talk a little bit about what we're seeing in commodities and cocoa pricing and how we're thinking about how that flows through the P&L. How about we take a little bit of a step back and talk a bit about that, and Steve and I will kind of tag team this? So we are very focused on watching cocoa's commodity because it's critically important for us. We do know it's a headwind as we go into next year, and that headwind is built into the guidance that we've given you. So every year going forward, we focus on the right combination of programs, which include hedging, which includes sometimes deciding to price, which include making trade-offs across the P&L to really accommodate whatever is happening in cocoa pricing. We do have pretty strong visibility going forward, so we have a chance to plan around that. And Steve, do you want to talk a bit more about that?

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes. I would say, as Michele said, we have good visibility in 2020. As you point out, David, if things like the lid and some of the pressure on cocoa remain into 2021, that will put some pressure, for sure, from a commodity standpoint into the P&L. That said, between pricing levers, productivity levers and others, we'll use our toolbox to work to continue to drive leverage through gross margin as we go forward. The bar will be tougher, depending on how that cocoa pricing shapes up as we get to the back part of 2020 and into 2021, and we'll have more visibility into that as the year progresses.

Michele Gross Buck
Chairman, President & CEO

It's certainly something that's been volatile over time. So I think we have experience managing that volatility.

David Sterling Palmer
Evercore ISI Institutional Equities, Research Division

That's very helpful. And just a real small one, the relaunch of Take5, as you said, at the Super Bowl. That's an interesting move. It's only in the measured channel, it looks like it's about 0.5% of your channel mix. So it's not a huge trademark, but there's probably something you see in that, that's making you think there's an opportunity there. So maybe a couple of comments about why you think that is?

Michele Gross Buck
Chairman, President & CEO

Sure. So Take5 has the highest repeat purchase of any competitive innovation and has one of the highest repeat purchases of many of the great brands we've seen over time. It lacks awareness and trial. And so we relaunched -- began relaunching that brand, putting it under the Reese's trademark because that is one key way to drive trial. It is -- has great Reese's peanut butter on it. But that's where a placement like Super Bowl can tend to really help you, which is it garners a lot of awareness and trial and eyeballs. And we think that, that will be really helpful for us as part of our overall marketing plan behind Take5. So we look at Take5 as -- I look at it as one of our great innovations for the year. We know it's a great product, and we'll have consumers get a chance to try it for themselves.

Operator

There are no further questions at this time. I'd like to turn the call back over to Melissa Poole for any closing remarks.

Melissa Poole
Vice President of Investor Relations

Thanks for joining us this morning. We'll be available for the rest of the day if you have additional questions. Please feel free to reach out.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time. And thank you for your participation, and have a wonderful day.