The Hershey Company

Third Quarter 2023 Question-and-Answer Session

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CORPORATE PARTICIPANTS

Melissa Poole, *Vice President, Investor Relations*

Michele Buck, *Chairman and Chief Executive Officer*

Steve Voskuil, *Senior Vice President and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Andrew Lazar, *Barclays*

Ken Goldman, *JPMorgan*

Max Gumport, *BNP Paribas*

Michael Lavery, *Piper Sandler*

Pamela Kaufman, *Morgan Stanley*

Bryan Spillane, *Bank of America Merrill Lynch*

Robert Moskow, *TD Cowen*

Chris Carey, *Wells Fargo Securities*

David Palmer, *Evercore ISI*

Alexia Howard, *Bernstein Alliance*

Rob Dickerson, *Jefferies*

John Baumgartner, *Mizuho Securities*

Jim Salera, *Stephens*

PRESENTATION

Operator

Greetings, and welcome to The Hershey Company Third Quarter 2023 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

Good morning, everyone. Thank you for joining us today for The Hershey Company's third quarter 2023 earnings Q&A session.

I hope everyone has had the chance to read our press release and listen to our prerecorded management remarks, 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. Actual results could differ materially from those projected. 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. (Operator Instructions) Our first question comes from the line of Andrew Lazar with Barclays. Please proceed with your question.

Andrew Lazar

Good morning, everybody.

Steve Voskuil

Good morning.

Michele Buck

Good morning, Andrew.

Andrew Lazar

Hi. At Hershey's Analyst Day, earlier this year, I know that the Company expressed confidence in generating the high end of its long-term growth algorithm for '24, and we know some things have changed since then. There's been some more inflation. You talk about what seems to be the need for maybe some more aggressive investment spend behind stepped-up innovation, as well as some shifting between trade and consumer spend and some consumer behavior shifts. I was hoping maybe you could take us through some of the key puts and takes for next year, how you're seeing all of this rolling up at this point? Basically, if '24 can still be sort of an on-algorithm year even if not necessarily at the high end.

Michele Buck

Sure. Certainly, Andrew, we recognize that the world continues to be very dynamic out there, but we're very confident that we can pivot and adjust to those changes. If we think about things that we're anticipating strength on from a top line perspective, we've got good visibility with the capacity-enabled growth, the capacity that will come online. Gummies, in particular, is an area where we've not been able to fully take advantage of the growth in the Sweets segment, and we're going to be in a much better position next year to do that.

Certainly, some of the capacity that came online this year has been helpful to us relative to seasons and better being able to take full advantage in that area. That will be a benefit next year as well as additional Reese. Certainly, we have higher levels of innovation. Reese Caramel is one that we have highlighted already, but that's going to be very helpful for us in terms of driving the overall business as well as merch.

We have some opportunities in distribution on Salty, Dot's in particular. Of course, we also have pricing carryover from this year.

From a margin perspective, we know that we've got inflation that's a bit of a headwind with all-time high commodity costs in cocoa, but we also have pricing and productivity that will help to offset that. We will have some onetime pressures related to the S/4 transition. But again, that's really a transient event and will create some issues relative to inventory in the first part of the year.

That's kind of a little bit of an overview. Steve, anything you would add to that.

Steve Voskuil

No, I think you hit all the key pieces. Obviously, the next time we talk, we'll have a lot more details on next year.

Andrew Lazar

Great. Maybe just as a follow-up, you mentioned pricing and productivity, we know that there's already some pricing that will flow through and benefit '24 from initiatives you've already announced and sort of put into the market. Have there been any other incremental pricing actions announced or that you think there'll be potentially the need for, given where some of the cost increases are coming from?

Michele Buck

We have not announced any incremental price increases. We always evaluate the marketplace and have a lot of factors that we consider to determine how to best grow the business. Pricing is certainly one tool. I mentioned productivity. Now, that we're in a better shape from a capacity perspective, we have more ability in our supply chain to activate productivity, and then we also look at productivity across every line item of the P&L, whether it's trade, media, organizational processes, and make sure we're really leveraging the best capabilities and investments to drive the business.

Andrew Lazar

Thanks so much.

Operator

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

Ken Goldman

Hi. Thank you. I just wanted to follow up on Andrew's question a little bit about next year. I very much understand you're not necessarily in a position yet to discuss all the details of '24, but you have given us some sales outlook, the EPS outlook for next year.

I guess the question was whether you can hit the high end of that. The numbers that you put out there—and I realize things are still changing and pivoting, but I'm just really curious because I think it's an important question to kind of follow-up on that guidance that you had given and really get a better understanding of have the incremental headwinds, that have come since your Investor Day—I guess just been a little more powerful than some of the tailwinds that have come as well. I'm just trying to get a sense of balancing all that, I think, a little bit in the context of the fact that some numbers have been provided already. Thank you.

Steve Voskuil

Sure. Yes, I'm happy to take it. It is an important question, and we'll address it a lot more fully on the next call. I think the key right now is there are a lot of moving pieces even since we had that call, and some things are progressing in a positive way. We talked about productivity a little bit already. Productivity was one of the upsides we talked about on the call, we're having a great year from a productivity standpoint, and I expect that to carry forward. As Michele just said, we'll continue to look at pricing in all variables, pack price architecture, regular pricing. and other places for productivity, and then we're watching the commodity markets closely. There's been a pretty significant change there too, from the beginning of the year.

As we get together next time, we'll be able to pull all of that together and give you a better picture on how we feel about what we said back at the investor conference. But right now, we're still looking at, as Michele said, a pretty dynamic environment.

Ken Goldman

Okay. Thank you for that. My follow-up is, as we think about the trade de-load, you mentioned, with the key retailer. Can you talk a little bit about what drove that and what some of the risks are that additional de-loads happen with maybe some of your other customers?

Michele Buck

Yes. Really, what we saw from the key retailer was a reduction in merchandising, which did pull back on shipments into that retailer. This is really about their strategy to improve the shopping experience for their consumers and also to make fulfilling online orders easier for their pickers in store. This was a change that impacted many categories—confection was one of those—and we had a disproportionate impact because we have had a very high share of merchandising. Therefore, that pullback impacted us, but it impacted many other categories in both edibles and non-edibles.

Now, I want to point out, this is really related to every day. So, as you think about Q4 and the importance of Halloween and Holiday, this did not impact season, so we don't expect the same impact in Q4 given how much of our business is seasonal. We do think that this will be a headwind in the first part of '24, where we're lapping higher levels of merch.

Ken Goldman

Thank you for the clarification. I appreciate it.

Michele Buck

Sure.

Operator

Thank you. Our next question comes from the line of Max Gumport with BNP Paribas. Please proceed with your question.

Max Gumport

Hey. Thanks for the question. First, I just wanted to follow up on your commentary on the retailer merchandising reduction. It sounded like it was to help improve the shopping experience and the e-commerce and picking ability as well. Is there any reason to think other retailers could follow the same path? It sounds like it's just one key retailer for now, but are there any reasons to expect other retailers will follow?

Michele Buck

I don't anticipate that. I think the degree of merchandising at this retailer was much greater than at many others, so I wouldn't anticipate that.

Max Gumport

Great. On Halloween, it sounds like it's up slightly so far. I know there was a low double-digit expectation, and I know that this year shopping patterns have been a bit more normal, so less shopping earlier in the year. I think that would be one key reason to think you can still get to that low double-digit number, but I just wanted to make sure you still have visibility to the low double-digit target for Halloween this year. Thank you.

Michele Buck

Yes, I think the way you characterized it is certainly correct. We have seen a normalization of the patterns from consumers in terms of when they're shopping as their concerns about potential availability are not there this year like they were last year. Fifty percent of the season does sell through in the last two weeks of October, so we still do have a bit of product to sell through. With Halloween falling on a Tuesday, there will be a lot of sales this weekend.

We have seen a little bit of softness in the season from some cohorts that have indicated affordability was a concern in their participation, and it wasn't just in Candy, it was some other seasonal categories, including decorations, costumes, etc. But we are out there building aggressive displays, the product is out there, and we are continuing to drive to deliver our expectations for the season.

Max Gumport

Thanks very much. I'll leave it there.

Operator

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

Michael Lavery

Thank you. Good morning.

Michele Buck

Good morning.

Michael Lavery

Just was wondering if you could catch us up on Cocoa. Obviously, we see the market rates or the spot rates. But you've always done, I think it's anything from 3 to 18 or maybe even more months of hedging and contracting, and can you just give us a sense of maybe what, if anything, you expect the market to do? How you're positioned relative to that? And I know the pricing question came up a little bit earlier and you haven't announced anything, but is there any reason to believe that you would have any different approach than normal where if it remains an elevated source of pressure, you could take the pricing to cover it? Just some thoughts on how all that looks from your seat.

Steve Voskuil

Sure, I'd be happy to do that. On the Cocoa side, our policies haven't changed. You referenced the hedging horizon, and those fundamentals haven't changed. I would say, as we sit here today, we probably have less visibility on a full year '24 pricing locked in than we might have had in prior years, and some of that is driven by the high pricing right now. But we're staying very close to the market, and of course, that influences other parts of the strategy, as you mentioned, like pricing.

From the pricing standpoint, as Michele said, also nothing fundamentally has changed there in our strategy. Pricing is one tool, and there's a lot of ways to deliver pricing, and there's productivity and other things in the P&L that also have to be part of that equation. I would say there's nothing off the table, but as we come back in 2024 and give guidance, we'll be able to give more color. By then, we'll also have another picture on the Cocoa market is headed.

We talked a little bit in the last call that there is some divergence between what we see in pricing and some of the underlying fundamentals, and we still have an aspiration at some point that that will normalize. But to the extent it doesn't, we thought that earlier this year, and it didn't play out that way. But every quarter that goes by, we get more visibility and that will inform how we think about the pricing question.

Michael Lavery

Okay. Great. That's helpful. Just a follow-up on buybacks. You mentioned you didn't have any in the quarter. Obviously, the stock has been more attractively valued from a buyback perspective. How do you think about that going forward? Is there dry powder that you are saving for M&A or is buyback something that you might ramp back up?

Steve Voskuil

Yes, it is attractively priced. I agree with you. As we think about our capital allocation principles, share repurchase always plays a role. We are looking at it closely. Again, as we talk next year and how we're going to allocate capital, you can imagine that's going to play a role, and we'll continue to watch what's happening on the stock price and other calls for capital. I will say we're coming off a pretty big year of capital spending this year. It's not going to look like that next year. That is going to allow some more cash flow to deploy to other uses. So, we'll keep that in mind as we think about '24.

Michael Lavery

Okay. Great. Thanks so much.

Steve Voskuil

You bet.

Operator

Thank you. Our next question comes from the line of Pamela Kaufman with Morgan Stanley. Please proceed with your question.

Pamela Kaufman

Hi. Good morning.

Michele Buck

Hi, Pam.

Steve Voskuil

Good morning.

Pamela Kaufman

We've seen consumer demand soften across categories, including for chocolate, as you mentioned in the prepared remarks. You also pointed to your outlook for demand elasticity to continue to return to normalized levels. But historically, the Chocolate category has exhibited relatively limited demand elasticity. So, can you talk about how you're thinking about demand going forward in Q4 and for next year?

Michele Buck

Sure. I would say we certainly continue to feel good about our category and the price realization potential in our category as we have had over the years. We focused a lot on the value equation, investing in our business and our brands, to keep that strong.

At the same time, we're also cognizant that it is a different time today. We know that value and affordability continue to be top of mind for consumers as budgets are stretched, some less government assistance, the restart of student loan repayments, higher interest rates. We've heard from consumers that they're needing to make difficult choices. So, we are certainly focused on that, and making sure that we're really focused on our value equation in terms of selling to value channels, having the right opening price points, etc.

Food has been more resilient than some other categories, but we know that some of the SNAP households are reporting that they're eating and buying less, so we're very cognizant of that. We've also seen some increase in sales in some of the perimeter categories where there's been deflation versus some of the inflationary categories.

That said, where we focus on are where are the growth levers that we can continue to drive to engage consumers, and that is having the right levels and the right media targeting approach to continue to keep our brands relevant, but with both the media and the creative, we know that that's important. We didn't have as much innovation this year as we think was ideal on the business, and we've really stepped that up for next year. Feel great about Reese's Caramel in particular, and we'll share some of the other innovation that's coming as we go down the pike.

Seasons continues to be a big piece of our business and winning during those seasons, getting that merchandising—and it is a time where there's a lot of emotional connectivity with consumers, so it's a natural time for them to come in the category. And we continue to have distribution opportunities, both in terms of some places where we were short on capacity, and we had to pull back on some core items that we're now going to be able to supply, as well as some of the innate distribution opportunities that we have on the Salty business.

Those are some of the places that we're focused on to really drive growth.

Pamela Kaufman

Thanks. For my follow-up, I just wanted to talk about the competitive dynamics in the Salty Snack segment and within Popcorn specifically that you highlighted. What are you observing in the segment, and how are you addressing these competitive pressures?

Michele Buck

Yes. I'd start by saying that we have seen some softening in Salty Snacks overall. Volumes held fairly steady throughout the quarter, but growth decelerated as pricing lessened, and there was also some growth that shifted to non-measured channels. Again, we know that affordability and value are of increasing importance to consumers, and we're also seeing them really prioritize some of the more satiating snacks.

As we look at our business, certainly, we're seeing a lot of strength in Pretzels, in the category, as well as our Dot's distribution opportunities. And as we look at ready-to-eat popcorn, certainly, we do know that consumers are focused a little bit more on satiety, and we've had some retailers focus on private label in merchandising in particular. As we go into next year, certainly, we'll be focused on productivity in the category. We know that some of the branded items have greater productivity and making sure we're working with retailers on taking full advantage of that, continuing to invest in those brands to really grow household penetration and connectivity with consumers.

Certainly, as we look at this year, S/4 impacted some of our ability to execute and really lean in as we had to focus on pulling back a bit on support on the business, during Q3 and Q4, to enable that build that we needed in inventory and just to make sure that we could move through that very smoothly, and that will be a headwind for us next year.

Pamela Kaufman

Thank you.

Operator

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

Bryan Spillane

Hi. Thanks, Operator. Good morning, everyone.

Michele Buck

Good morning.

Steve Voskuil

Good morning.

Bryan Spillane

I guess I have two questions, and it's kind of more related to, I don't know, the momentum in the business, and what we should be reading from the fourth quarter in the implied guidance. Two areas, if you could touch on them. One is, if we look at the revenue guidance, and I think in the press release, you talked a little bit about—in North America confection, shipment timing helped a little bit. So, just if you're thinking about the revenue guidance being held, is what happened in 3Q versus the pull forward, or however you want to describe it, is that just purely timing shipment or is it a reflection at all that it’s kind of the softness in every day had an impact as well in terms of the way you're thinking about revenue outlook? I don't know, is the category or the business kind of slowing more than you thought?

Maybe, Steve, if you can touch on, same thing, implied margins for the fourth quarter, kind of lower in 4Q versus 3Q. Can you just touch on that? Is that somewhat a reflection of the potential for margin degradation? Or again, is this just more timing? If you can touch on those two things, it would be helpful. Thank you.

Steve Voskuil

Yes, happy to do. I'll start with the sales side. The biggest driver between Q3 and Q4, and Michelle said it before, was seasonal timing. We had a big seasonal timing benefit in Q3 at some at the expense of Q4. Now, Q4 also has seasons. We've got Holiday as a big factor and maybe even some early Easter shipments potentially. But Holiday is not as big as Halloween, and so just from a seasonal impact, that's one of the factors. We've kind of modeled historic elasticity, so we saw some of that coming in in Q3, and we've modeled that more fully into Q4, and we also have a slight inventory headwind on sales. So, those are some of the drivers.

I would say, as I think about the guide on sales for the full year and I guess the implied Q4 around 8%, I would say there's probably less likely to be upside to that number. If some of the risks would persist—we've got a lot of mitigating actions, but if some of those risks would persist, it's probably more likely to be around to the lower side than around to the high side of the guide on the top line.

On the margin side, it sort of reverses some of the benefits that we had in Q3, so you're losing some of the fixed cost absorption benefits that we had in Q3 with the higher volume. So, we've got a little bit less pricing coming through in the fourth quarter that has an impact and then a more difficult lap also as part of that. Nothing structurally different in Q4, but reversal of some of those benefits that we saw in Q3, just manifesting themselves in Q4.

Bryan Spillane

Thank you.

Steve Voskuil

You bet.

Operator

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

Robert Moskow

Hi. A couple of questions, please. One is, since the inflation you're facing is largely in cocoa, one would think that the Chocolate category would have to raise prices much higher than other snacking categories. Michele, when you think about how that would affect chocolate category elasticity, do you have to factor that in? Do consumers make pricing—choose chocolate over other snacks? Do they have pricing as part of that algorithm or not?

Michele Buck

Yes. So certainly, people are making choices across snack categories, and one of the things that we do factor in is kind of looking at cross category price elasticity in our models, so that's always the case. I think the past two years, in particular, have just been a little bit unique in terms of what's going on in the marketplace overall with inflation and pricing. So, seeing some different dynamics there.

Robert Moskow

Okay. One quick follow-up. You mentioned some headwinds related to, I think, the ERP timing and shipments for the first half of 2024. I think you said headwinds, but sometimes you ship ahead of ERP conversion. Steve, can you be a little more specific as to how to think about shipment movement in the first half of next year?

Steve Voskuil

Sure. We'll talk more about this when we give the '24 guide too, including the inventory build and the takeout. But yes, you're right, it's more of a sales movement, first. So, there's some inventory builds we'll do in advance to risk mitigate, just like we did for Salty here, and then we would expect to see that bleed out in the second quarter—mostly in the second quarter, so there'll probably be some higher sales or higher inventory build and some fixed cost absorption on the front end, and then the reversal of that in Q2. There'll be some costs—we'll talk more about the cost profiling. Some of that we take through the regular P&L and some of that gets non-GAAP out, but we'll give more clarity to that as we give '24 guidance.

Michele Buck

And that's similar to what we've experienced on Salty this year, where in Q3 we have the inventory build, and then Q4, it starts to bleed out.

Steve Voskuil

Work out. That's right.

Robert Moskow

Right. Okay. Thank you.

Steve Voskuil

You bet.

Operator

Thank you. Our next question comes from the line of Chris Carey with Wells Fargo. Please proceed with your question.

Chris Carey

Hi. Good morning.

Steve Voskuil

Good morning.

Michele Buck

Good morning.

Chris Carey

Just a quick question on Salty as well. One is near term, one is more medium term. Has anything changed about how you view the category over time given the slowdown? Then can you just maybe be a bit more specific about why consumption trends should improve? Is it really just lapping comps, increased promotional activity after Q4—I know you're not doing it in Q4, but maybe more the kind of two- to four-quarter trajectory and why things get better, so just what's changed your thinking of the category, if anything, over the medium term in that two to four-quarter dynamic on improvement?

Michele Buck

Yes. I don't have any different views on the category. Snacking continues to be very strong consumer behavior, and I love our portfolio of having a very strong leadership presence in both Indulgent Snacking and Confection as well as participating in Savory Snacking, especially with the brands that we've acquired that have very strong consumer engagement and growth potential. So, continue to feel very good about those.

I think relative to the trends improving, we can't talk really about '24, we'll come back and talk a bit about that more, but we continue to feel that we'll see similar trends in Q4 as we've seen in Q3 relative to takeaway. I mean, some differences in shipments related to S/4 because the inventory will now be coming out. We built inventory in Q3, so from a shipment perspective, we'll see that difference; but from a takeaway perspective, we anticipate a continuation of what we saw in Q3.

Chris Carey

Okay. Thanks so much.

Operator

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

David Palmer

Great. Thanks. Good morning. A question on Seasons. There's been a lot of discussion about Seasons on the call. Can you remind us what percent of your business in Confection is from Seasons? It feels like you've won in Seasons in recent years, can you just give us a sense of how much of your growth in Confection has come from Seasons in recent years?

Michele Buck

Yes. Seasons is between 25% and 30% of our total business on a full year basis. It varies by quarter. Obviously, Q4, we have Halloween and Holiday, so it's a much bigger percent then, of our growth, probably about the same proportion of our growth—about a third in the back half of this year.

David Palmer

Then just looking ahead to '24, I'm wondering how you're thinking about Seasons growth. In an answer to a previous question, you talked about how Seasons would be helped by capacity. You would just have more ability to fulfill demand. I'm wondering how you would marry that with what you're seeing from retailers and perhaps even the consumer and how you're seeing the consumers respond to existing Halloween—how you think about Seasons in '24?

Michele Buck

Yes. We think our Seasons business will be very solid in '24. One of the key things to anticipate in the next year is always realizing what your sell-through is on each current year season, so we need to get through Halloween to see what that sell-through turns out to be. We have, as mentioned earlier, a few more days—about a week that we need to be able to look at that, and then obviously have strong sell-through in holiday. We need those data points, but we feel good based on where we are to date, but we'll have a better feel afterwards.

The other thing that will impact '24 is there will be a shorter Easter, depending on where the date falls, and this year, Easter in '24, I think is March 29. So, it's on the shorter side, which creates a shorter season and a little bit of pressure from that perspective. It just won't be as large as in years with a long season.

David Palmer

Thank you.

Operator

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

Alexia Howard

Good morning, everyone.

Steve Voskuil

Good morning.

Michele Buck

Good morning.

Alexia Howard

Hi. I guess two questions. The short-term one is really about market share trends. I know that they've been weak in chocolate in the U.S. recently. I think the hope was that against an easy comp on Halloween that things might start to turn the corner sooner rather than later. But do you think we're going to have to wait until the beginning of next year to really see that improvement with improved innovation? And then I have a follow-up.

Michele Buck

From a short-term perspective, to-date our data suggests we are winning share of Halloween, so we are pleased with that and feeling good about that. As it relates to the everyday business, there we will need to wait until '24 to see improvement, driven by some of our stronger innovation that will really help the everyday business.

Alexia Howard

Great. Thank you. Then on the follow-up, the GLP-1 question, which we're all chatting about out here. I know it's too early to tell how big it's going to get. Probably not having a big impact today because there's too few U.S. adults on these drugs right now. But today, how do you plan for different scenarios on that. Obviously, adult consumption versus kids is going to be different, low sugar versus full sugar items portion control. How are you thinking about planning for that scenario as it unfolds, given that it's early days. Thank you.

Michele Buck

Yes, absolutely. I think you've captured it correctly. It certainly is very early days. We don't believe the GLP-1s are having a material impact on our business at this point in time, and I think we all know there's a lot of data coming out—there's still so many unknowns regarding the rate of adoption, the impact on food choices, the medium- to longer-term impacts on consumers, and we're doing more work constantly to understand those future potential impacts on our categories.

We have a robust planning and forecasting process, and we try and factor in all of those consumer behavior changes that we're observing, inclusive of GLP-1s, and thinking through all of those right strategies that will be important for us if they do increase in adoption.

One thing we feel particularly good of is the emotional nature of our categories and our brands and the role that they play in moments of celebration and joy as you think about the Seasons, but we will continue to adapt our portfolio as we have over time to make sure that we are providing consumers with what they're looking for, whether it's the products, the ingredients, the innovation. Certainly, there are opportunities around portion size and pack type. I think a lot of companies have been focused on that as you think about the potential impact of GLP-1s. Then certainly, we're always looking at opportunistic M&A as well as we have in the past.

Alexia Howard

Great. Thank you very much, and I will pass it on.

Michele Buck

Thank you.

Operator

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

Robert Dickerson

Great. Thanks so much. Michele, I think in the prepared remarks, and you mentioned it previously, (audio interference) you've commented on products on the perimeter of the store. I'm assuming you were speaking to kind of more fresh bakery and you also spoke to kind of more satiating foods. At the same time, it sounds like on the Salty Snacks side, you commented on snacks performing a little bit better than (inaudible), right?

Michele Buck

Right.

Robert Dickerson

Is this all around price point demand? Are you just trying to basically find more value at an appropriate price, and therefore, even though you, let's say, used to eat a candy bar, now you want cupcakes. Trying to figure out exactly what you're speaking to? Thank you.

Michele Buck

Yes, absolutely. That is what it's about. It is about the value equation. Certainly, we do see in times where consumers are really struggling, a bigger focus on kind of the gut fill, the bang for the buck in terms of filling you up, and we've seen that and heard that especially from lower-income consumers before. So yes, that focus on satiety, where we're seeing categories like Pretzels, Meat Snacks, Tortilla Chips, some of the things that are more filling behave more strongly from a category perspective than something aerated like a rice cake or cheese puff or ready-to-eat popcorn. So yes, it is about that value for the buck.

Now the other thing, in addition to things like cupcakes that we did see, we did see some increase in fruit consumption, and there was not a lot of inflation in fresh produce like that. I think there was a value perception there as well.

Robert Dickerson

Okay. Makes sense. Thank you. Then just quickly, the International segment slowed somewhat materially, especially on the volume side, and I know you called out a competitive dynamic and the moderation in category growth. Optically at least when we see the numbers in Q3 relative to the year ago and vis-a-vis what we saw in Q2, it does seem like it's almost somewhat sudden, and I don't know if I'm missing something. Maybe if you could just explain what that drop is and maybe it's fully defined by just the shift in the non-U.S. holidays. Thanks.

Michele Buck

Yes, so there was definitely the shift in the non-U.S. holidays with Diwali in India coming a little bit later. The other big thing was the rationalization of our beverage business in Mexico, which I'm not sure that we've talked as extensively about, but we had a small drink business—maybe not that small in Mexico—it was sizable for Mexico. Not highly profitable. And in our continuous efforts to make sure that we are focused on the best opportunities and putting our resources against those best opportunities, we made the decision to discontinue that drink business.

That did have a meaningful impact in the range of three to four points from a top line perspective, and we really first started experiencing that in Q3. We will lap for a year, have that be an impact, but it was a minimal impact on profitability because it just wasn't a highly profitable business.

Robert Dickerson

All right. Super. Thank you so much. I'll pass it on.

Operator

Thank you. Our next question comes from the line of John Baumgartner with Mizuho Securities. Please proceed with your question.

John Baumgartner

Good morning. Thanks for the question.

Steve Voskuil

Good morning.

Michele Buck

Good morning.

John Baumgartner

Maybe first off, Michele, I just wanted to come back to the market share in chocolate, because we're seeing in the Nielsen data, their share gains accruing on an accelerating basis for premium brands and even private label, which is pretty unusual. It's coming at the expense of the more mass price offerings. To what extent do you think the strategy needs to respond more broadly to these shifts, be it through more promotion, maintaining a larger brand investment for longer. It sounds as though your view is it's more of an innovation timing issue that reverses out next year to your benefit, but is there a chance that a larger pricing or promo pivot might be required going forward?

Michele Buck

As we look at the market share overall in Confection, certainly, we've had a negative impact from category mix with faster growth in Refreshments and Sweets. And with the incremental capacity we've added, we're going to be able to unlock more of the potential for us on share within Sweets.

The innovation that we've talked about, in addition to helping the everyday business, innovation drives merch, and so that's going to be very helpful in terms of helping promo, and then also we're working through the one retailer partnering very strongly to make sure that we can adhere to some of their direction, and at the same time make sure that we're recognizing the impulsive and expandable nature of our category, and making sure that we have the right plans to take that into account.

We have continued to invest in our brands, and we will continue to going forward. At this point in time, I wouldn't say that we're anticipating a very large, substantial change in our investment levels. We have strong levels in trade and consumer. On the margin, we are always open to adjusting those as we see fit, and we also are really focused on making sure that the allocation is as strong as it possibly can be between trade and between media as we look holistically. We haven't seen a big, huge increase, frankly, in premium. A bit of an increase in private label, but it continues to be a very small part of the category.

John Baumgartner

Okay. I guess just following that line of thought with this merchandising adjustment at the retailer. You mentioned it wasn't confined to Confectionery, but I mean Confectionery is also pretty valuable to retailers for profit and velocity. Do you have a sense for which categories benefited from this adjustment? It just seems odd this happens ahead of the holidays, given the importance of the category, and then your own innovation and capacity ramping next year. I mean, I don't know how surprising that decision was for you, but I'm just sort of curious, who sort of benefited from this merch change? Do you have any sense?

Michele Buck

No category really benefited, because it was an overall reduction in merchandising. It was more of a focus on consumer experience for more open aisles, and also to enable growth and support of omnichannel and the digital business from a picking of products. We are counting on trying to drive, and the retailer counting on increases in everyday velocity to be enough to offset that. We're certainly partnering really closely to make sure we have all the right programs and plans, jointly, to jointly drive the category. As you mentioned, it's highly profitable, it is expandable consumption, and there is an impulsive opportunity, so we continue to work hard to drive that.

John Baumgartner

Thanks, Michele.

Michele Buck

Thank you.

Operator

Thank you. Our next question comes from the line of Jim Salera with Stephens Inc. Please proceed with your question.

Jim Salera

Hi, guys. Thanks for squeezing us in. Can you maybe offer some commentary around the Dot’s distribution—gaining permanent distribution at Club? I know it’s a very attractive value proposition for consumers. Is there a lot of bigger wins like that on the table? Does this help you kind of accelerate the value proposition when you go to retailers to say that you can have it in a large concept?

Michele Buck

Yes, I think it helps us in terms of household penetration, because we are still in the process of building the household penetration on that brand. Frankly, the business is quite big given the relatively nascent household distribution. So, Club is always a great venue to get that. We continue to have some distribution opportunity on the Pretzel business overall, so we continue to be excited by that and excited that the velocities have held up pretty well, despite those increases in distribution. We also have some opportunities for select innovation. We introduced Cinnamon Sugar, which has been a great hit in the marketplace as well.

Jim Salera

Great. Then maybe if you can offer some commentary, just given that Dot's seems to be insulated from some of the demand elasticity that maybe we've seen in some of the other more premium Salty offerings. What is it about Dot's? Is it just their core consumer, is it higher income, or they just have a really on-trend offering? What is it that seems that they've been able to be insulated compared to some of the other more premium Salty offerings?

Michele Buck

Yes, I think one of the biggest things we've seen from our consumer work is the satiety of the category. It's a very satiating snack, it's very filling, and therefore, even though it is a premium product and some of the price points are high, it delivers on that value equation with very strong satiety, and I would say it certainly is a very differentiated product.

Jim Salera

Great. Thanks for that.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back over to Ms. Melissa Poole for closing comments.

Melissa Poole

Thank you all so much for joining us this morning, and we look forward to catching up with you in the coming days and weeks. Have a great rest of your day.

Operator

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