[BEGINNING OF The Hershey Company.mp3]

Andrew: Next up, please join me in welcoming Hershey back to the CAGNY stage. Before I get to my actual introduction, join me in thanking Hershey for so generously sponsoring the break on Thursday. On that front, we all know how excited everyone gets for that break. I'd like to remind everyone of two things. One, let the kids go first, and second, stay out of my way when I'm going for the Reese's Caramels. Joining us from Hershey today we have chairman, president, and CEO Michele Buck, senior vice president and CFO Steve Voskuil, and vice president of investor relations, FP&A, and business analytics Melissa Poole.

Since taking over as CEO, Michele and team have not only delivered peer-leading organic sales growth, but done it through an enviable combination of both volume and pricing, driving strong growth from their core brands we love like Hershey and Reese, while expanding into new snacking occasions with brands like SkinnyPop and Dot's. And in the last several years, the company has undertaken an aggressive initiative to modernize the company, optimizing its cost structure and manufacturing footprint to drive enhanced productivity, including its recently announced advancing agility and automation program. Providing the fuel, both to invest for future growth while combating near-term headwinds from inflation. With that, I'll pass it over to Michele.

Michele: Thank you, Andrew. Good morning, everyone. I'm delighted to be with you here today. I actually heard a little buzz, that everybody was really anxious to see me come up on stage, or maybe that was somebody else they were hoping to see up on stage. For those of you who have that perspective, you'll have to wait just a few minutes for that. So, with that, let me get started. Let me first start by making a reminder that this morning we will be making some forward-looking statements and we will refer to certain non-GAAP financial measures. Please keep this in mind as we go through our presentation. And reconciliations are found in the presentation focused on the website.

As you know, we are navigating some short-term volatility right now. However, it's important to remember the long-term opportunity with Hershey. We have a stronger and more diversified business than we've had in the past five years. Salty snacks is an incremental growth vector for us and today, two of our top 10 brands are salty snacks brands. Our international business is growing nicely, and it is significantly more profitable than it was just five years ago.

Both confection and salty are great categories. They have above-average growth rates, they have strong margins, and they are accretive basket builders for our retailer. Salty and international are incremental to our core business. So while we are taking action to mitigate our short-term pressures, we will not do anything that is at the expense of the long term. We are committed to continuing to invest in our business, our brands, and our capabilities to drive long-term shareholder value creation.

So we've been on quite an exciting journey. As Andrew highlighted at the beginning, our confection brands have had strong trends over the past several years, and clearly, some of that has been impacted by the positive trends we saw coming out of COVID and also inflation. But we believe our foundation and our strategies are in an even stronger place. We have a dynamic pricing model, we've evolved our innovation approach, and we're leaning into growth in new areas in which we were underdeveloped, in sweets and better for you.

We talked about salty, I talked about that a little bit earlier. Salty now represents 10% of our company's sales. And as we think about our international business, as it continues to grow nicely, our segment margins are up over nine points over the past five years, and we see the potential for them to continue to grow going forward. We also have invested in capacity, but those investments in our supply chain network were not just about getting the capacity, they also built for us capability and opportunities for efficiency.

As I look at our portfolio today, we have an amazing array of brands. It starts with our billion-dollar brands in Reese's and Hershey. Beyond that, we have a number of scale brands of which two of our top 10 are SkinnyPop and Dot's. Our brands meet many different consumer needs as we play across chocolates, sweets, refreshments, popcorn, pretzels, protein, and our portfolio continues to expand. Over the past year, we have made some significant advancements in the foundation of our business that are really gonna pay off for us moving forward in the future.

As you know, over the past several years, we acquired a number of different salty businesses, including SkinnyPop, Dot's, Pirate's Booty, and then the manufacturing capabilities to support them with Weaver Popcorn and Pretzels, Inc. Up until recently, those businesses operated very independently. They were driving strong growth on their own, but they had not yet been able to tap into the scale of the broader Hershey for us to create opportunity and also efficiency.

But in recent times, we have focused on unifying those businesses together, so that we now have one unified salty snack business unit. We've unified the commercial teams, the supply chain, very recently, the digital backbone with the implementation of S/4 in salty in the third quarter of this past year. And we now believe we have opportunities to better leverage our capabilities and to drive even greater efficiency.

The other area where we've made a significant step forward is in the space of technology. S/4, you've heard us talk about it for many more years than I would like to be talking about it, but it's finally come to fruition. We implemented Mexico two years ago as our test case, salty, Q3 of last year, and we come up with the mothership against U.S. and international implementation in Q2 of this year. That will serve as a platform, off of which we can drive even more automation and efficiency and digital end-to-end connectivity across our system.

On top of that, I brought on board a new leader, our first chief data and technology officer. Deepak Bhatia comes to us from Amazon. He has deep technology skills, and importantly, he also understands running a supply chain business like ours. The combination of this talent, us building that capability even further with our system's capability has a huge potential to unlock a future for us where technology can drive even more than it's driving for us today in terms of automation to solve problems in a more efficient and effective way.

Now that we have these things underway, we're ready to embark upon our next chapter. We have great strategies, we have a great portfolio, we have the right tools, we have the right team, and now we're ready to continue moving forward to focus against executing and building further capabilities. In '24, we are very focused and excited about what we have on the plate. We're focused on executional excellence. We have even more innovation than we've had in the past, which will unlock even greater merchandising for us across the business.

We have more media, and it is better targeted to give us even more reach. And we have optimized our trade spending and increased investment to make sure we can hit the optimal price points that are necessary. Over the long term, now that we have put in place the capacity and have our supply chain better built, we can now invest more in R&D and innovation because we have the line availability to go after those types of initiatives. And this will help us to continue to drive profitable growth going forward.

As you think about our strategies, they really remain the same. We wanna continue to be the leader in CMG. We have further work to do and opportunity to continue to scale our salty snacks business. We'll continue to drive focused growth in international profitable growth, and we'll continue to use M&A as a lever to reach incremental consumers and incremental occasions. A few weeks ago at our earnings call, we announced to you a new initiative. An initiative that's about unlocking organizational effectiveness for us. An initiative that we believe can build even greater agility and efficiency in how we operate.

S/4 was an important foundation for that because it enables a lot of what we do. It enables us to evaluate where and how we are gonna do work any different way. It enables us the end-to-end connectivity to better identify where there's redundancy and take that and complexity out of our system. So, while we are in the early stages, we are really encouraged about our progress on this initiative, and we look forward to sharing more for you in the months to come.

We'll continue to invest in capabilities to drive our business. We have more in innovation in the R&D as I mentioned earlier. You know that we are big investors in our business, both in terms of consumer spending and trade. And we have always been focused on how we continue to improve the effectiveness and efficiency of those dollars. We've made great strides improving our ROIs within those silos, and our big focus now is looking across all of our spend buckets to see how we optimize the spending across the total pool of investment.

The other area we're focused on is making sure that we have the best deployment of talent. That we have the right people working on the right things in the right areas, focused on the best and most valuable priorities. Thought I'd share a few examples of where we have used, already, technology to advance and unleash opportunity and efficiency on the business. Coming right off my discussion on consumer spending, one place that we have used this is we've leveraged AI to optimize our media spending during the key seasons. We can actually track seasonal sell-through at a market-by-market basis and then we can algorithmically increase our media in those markets where sell-through is falling behind. That's been a big benefit for us in improving efficiency of media.

As it comes to our supply chain. We've implemented data visualization, which has really helped us to improve line efficiency and to proactively perform maintenance. This has essentially unlocked about $150 million of what was previously trapped capacity. We've also used AI in other places relative to enhancing quality control, and we're using robotics where we think it's more efficient and more effective to move product within our facilities, and frankly, safer for our employees as well.

But our use of technology has not stopped just on the commercial side of the business. We've really uncovered ways to use it to optimize talent in our organization. We've used data and technology to optimize hiring. If we look at our manufacturing employees, we've been able to use that to optimize staffing of lines, how we run the lines, make sure that staffing is going to equal the production we need, and to optimize overtime. We've used AI to optimize the talent profile for certain key jobs that we have within the company, to make sure we've got the best match, the best fit to drive the results that we're looking for.

And we also have used that to develop an always-on pay equity initiative so that we aren't constantly going back to double check and see if we have pay equity across the entire organization and all groups within, but rather that we have that on a going basis. Let's pivot and talk a little bit more about the portfolio. And let's start with North America. You know that North America confectionery is the largest part of our portfolio, about 80% of our business. This is a category that's been incredibly stable over the long term. And in fact, the chocolate segment has grown every single year for the past two decades.

We expect CMG growth of in the 2% to 3% over the coming years. We like the category a lot because highly expandable consumption enables tremendous opportunity, it's high frequency, and that impulsive nature allows us to capture incremental purchase. This is also a category that's incredibly responsive to merchandising, and we're very pleased that confection has the highest percent lift on display of not only any snacking category or any center of store category. And that is pretty powerful in terms of partnering with our retailers to make very efficient use of real estate.

As we look at our key priorities on North American confectionery, there are three. First of all, lead with Reese. Lean into our mothership brand, Reese. Secondly, with all of the ever-changing retailer dynamics and retail dynamics, continue to win in-store, where it all happens. And then, lastly, continue to build our business in the sweets arena where we have been somewhat underdeveloped and working to drive our business and drive share. So, first of all, with Reese, we have exciting innovation. Reese's Caramel, how many have tried Reese's Caramel?

All right, good. Well, many of you need to find it in the breakout room and I hope that you saw our advertising on the Super Bowl. I hope you found it enjoyable. I thought it came across pretty well. We have invested increasing the capacity on Reese by 30% just to meet the current volumes that we have on Reese because we've seen such strong growth. This year, we have even more media on Reese. We upped the budget, but we also improved our media targeting, and essentially, our reach is up about 40% increase in impressions. And we'll continue to drive incremental merchandising on Reese as we really invest behind some of our big properties, the Super Bowl, March Madness and the Olympics coming up.

Winning in-store is absolutely critical, and our category management teams spend a lot of time partnering with retailers to look for opportunities to improve the availability of our category, the visibility of the category, as consumer behaviors and store environments shift. We are always very focused on our gold standard planogram. I'm pleased to say that we have that in over 85% of key retailers. We have worked to evolve queuing lines, to make the queuing even more of a good experience with consumers. And the work that we've done has actually led to 20% increases in purchase conversion.

We continue to focus on that love and passion consumers have for seasons and celebrations by making sure that that gets adequate display and adapting to consumers' ever-changing behaviors and making sure that we have opportunities for add-on items when consumers are coming to pick up locations to get their groceries. As we look at gummy, gummy represents a huge opportunity. I am thrilled that this year we are increasing our capacity on gummy by 50%. What that is allowing us to do is to have more SKUs on our core business at retail. It's allowing us to innovate, to invest more in media, and also to launch new partnership models in the gummy segment.

I wanna talk to you a little bit about one of those new partnership models. The landscape has evolved, and we are evolving with it. We need to reach our consumers in new and different ways. Confection is a category that not only tastes delicious, but it is all about fun. So, how do we bring propositions that are all about fun to the consumer? This year, we're partnering with a long-standing legend who continues to reinvent himself and draw in new fans. He is one who literally has his own Fun House. What can be better than that? So I'd like to ask you to join me in please welcoming Shaquille O'Neal to the stage.

Shaquille: Hello, everyone. Were you expecting Dolly Parton again? Hello, how are you?

Michele: I'm excellent. Thank you so much for being here with us today.

Shaquille: Thanks for having me.

Michele: It'll be the most excitement this crowd will have.

Melissa: So, Michele, I don’t know if I'm… Here we go. Michele, why don't you start by explaining the partnership maybe a little bit more?

Michele: Yes. So, we are thrilled to have Shaquille partnering with us. As we look at the gummy segment, there is a huge opportunity to bring gummies to the marketplace that can leverage Shaquille's big personality and his big kid enthusiasm for everything fun. And we think our consumers will enjoy that. We get to combine his tremendous connectivity with consumers, especially young, diverse consumers who are our key target, on the gummy segment, with our capabilities in confection, behind manufacturing, and R&D, and innovation that we think it's a great marriage that will have great appeal in the marketplace.

Shaquille: Exactly what she just said.

Melissa: So, Shaquille, you have a very long resume with a lot of success in a lot of different business ventures. Why candy and why gummies?

Shaquille: I mean, it is all about fun. It is so easy to access. Hopefully, it'll bring up a youthful exuberance in everyone. You know, I'm the guy that, you know, I've always just wanted to have fun. As the boss has already shown you, we are the leader in the confectionary market and we just want people to have fun. So, you know, when these things come out, we want you to buy them, we want you to invest in them, and we want you to have fun. Okay?

Melissa: Go ahead.

Michele: I was just gonna say, Shaquille, I know you've seen some of the products and, you know, I know you actually shaped them. Shaquille is a businessman and so he actually has, you know, influenced what the propositions look like and…

Melissa: [crosstalk 00:21:01] spent some time with our research and development team.

Shaquille: Yes. You guys have a wonderful research and development team, and I was there eating gummies all day. All day every day. And, you know, I think we're gonna come out with a great product. You know, I can't wait to get back to TNT and just tell Charles to bite me. Say, "Charles, just bite my head off." But, you know, I tasted all the flavors. The reason why I teamed up with Hershey is I've always aligned myself with, you know, great teammates and great partners and, you know, I just want to help you guys continue to win championships. So, thanks for having me.

Michele: Absolutely. We want your help winning.

Melissa: Yeah. Well, thank you so much for joining us this morning.

Michele: Thank you. More to come later this year.

Shaquille: Where is Dolly Parton? Because I want to see her too. Is Dolly Parton here? I wanted to see Dolly. Working 9:00 to 5:00, what a way to make a living. Love you, guys. Thanks for coming out.

Michele: So we're ready for some big fun. And yes, we're a little competitive. What can I say? Let's roll the video.

Man: Yeah.

Child: I can smell it.

[00:22:34]
[music]
[00:23:04]

Child: That seems like a lot.

Man: They're really good.

[00:23:07]
[music]
[00:23:42]

Man: Yep. Yeah.

Michele: All right. Let's shift gears and talk a little bit about salty snacks. Salty snacks is a large category. It has high frequency and strong pricing power. We participate in categories that have permissible qualities in consumers' eyes, popcorn, pretzels, and also better-for-you puffs. Both SkinnyPop and Dot's are the number two brands within their respective segments. And they have experienced double-digit CAGRs over the past five years. We believe there is continued upside for us to build our business in this segment, and we have tremendous confidence in it.

So, where are our key focuses on salty? It's about increasing distribution, further building brand awareness and price pack architecture. And I'll talk a little bit more about each one of those. As we look at SkinnyPop, we have the best velocities in the category. However, we are under-presenced in-store. So we have an opportunity for more facings of the core, for more SKUs relative to flavors, and also more packs at different price points to continue to drive the business. On Dot's, the story is similar. We shared with you that we have gained distribution recently in club and the business is doing well. Got expanded region after region at one of the big club retailers. But ACV upside remains as you can see here, and we have a similar opportunity to continue to expand with distribution, better facings, more facings, and PAC price architecture.

We also have an opportunity to continue to build brand awareness. I mean, you may forget that as much as these brands are number two in their segments, they are still relatively new in the marketplace. So, there is more upside on household penetration. We are increasing our level of investments. We have been advertising these brands, but this year for the first time, we have taken the media sufficiency level up much higher to 7% of net sales. We have a new campaign on SkinnyPop. We have some very powerful partnerships with big brands, SkinnyPop with Vitamin Water and Dot's with Coke. Perfect matches.

And we have continued opportunity with new flavors and new pack types. As we look at price pack architecture, if you think about these brands, they have been built primarily based on a couple key power SKUs, and it really is the time in their history where there's an opportunity to look at, how do we get into new occasions with different packs and also make sure we have the right price points for strong accessibility. On Dot's, we have launched entry-level price point initiatives and also trade-ups, and we continue to have opportunity in multipack.

I mentioned earlier leveraging the scale of our entire portfolio. And we couldn't be more excited about having combined displays that take our whole portfolio of sweet and salty snacking and put it on one end cap. It is an opportunity to leverage brands that have phenomenal velocity, which therefore makes them a really good use of real estate for retailers. It's a great opportunity for us to enhance cross-purchase across the entire portfolio to meet various consumer needs, whether sweet or salty.

Now let's touch on international. Our international business has been consistently growing mid-single digits, and we couldn't be more pleased with the improvements that we have seen in profitability over the years. And despite that very strong growth that you see in profit, we think there is still more opportunity that is possible to come. Our focus in international is in three areas. Number one, continuing to unleash the success that we have seen recently with Reese's. Number two, continuing to leverage Hershey's as a global brand. And then lastly, leveraging our local jewels.

So, as you look at Reese, we have had amazing success with Reese in the UK. It is the fastest-growing brand, or has been, for the past three years in the UK. It's doubled in size, and it has 17% household penetration. We have really gotten onto something here with Reese and we will continue to be driving hard to expand Reese there as well to look at other markets with similar consumer affinity where we can build a similar model. On Hershey's, Hershey's is a brand trust across many of our markets, including Brazil and India. We vary the offerings according to local tastes. You can see here an amazing dark chocolate line. This is from our business in Brazil, which is doing incredibly well in the marketplace. And we continue to support the brands with locally relevant media.

Lastly, Pelon is a great example of a local jewel. Spicy is a very big and fast-growing segment in Mexico and our Pelon Puerto Rico business is unique. And this year we have expanded into new PAC opportunities to expand the occasions that we can reach. So, I feel great about the portfolio and what it can do over the long term. We continue to see tremendous opportunity. We also though have a balance sheet to continue to look at the portfolio and determine if we want to further expand it. And so, our M&A strategy remains unchanged. We continue to look in the marketplace to evaluate opportunities. We are looking for things that are scale brands, have strong margins, and allow us to reach incremental consumers or incremental occasions.

All in all, while we have some unique factors facing us in our '24 outlook, there is no change into our long-term outlook. We continue to have strong confidence in our ability to deliver 2% to 4% net sales growth and 6% to 8% EPS growth over the long term. We will do that through base category growth, a robust innovation pipeline, expanded price pack architecture offerings, and technology and capability investments that will allow us to unlock more value and operate even more efficiently. So with that, I'm gonna turn it over to Steve.

Steve: Thank you, Michele. Good morning, everyone. I've never felt smaller than now. So, as we pivot to the financials, we'll just take a moment and look back over the last 10 years. And it's a good testament to the resiliency of this business in a lot of different economic circumstances. Top line growth of 3.7% on average over that period, adjusted EPS more than double that, and low double-digit free cash flow growth, which we're very proud of with our focus on working capital and capital efficiency. But of all the numbers on the page, we’re probably the most proud of CSR, which is significantly above our food peers and continues to be a very high focus point for the management team.

One of the ingredients to this has been consistency. And we've had no material changes to our financial policies and philosophies in recent years. If you look on the commercial side, every year we'd like to have over time a mix of volume and price driving the top line so that we know we've got healthy growth. We'd like to have revenue management that over time will offset the cost of commodities and inflation. We'd like to be able to drive productivity through the supply chain in a reliable way every year, driving cash that will help improve margins. And of course, we wanna continue to invest in our business in our best ideas, particularly in the core.

On the capital side, again, no changes. We wanna grow the dividend in line with earnings over time. We wanna have disciplined capital spending with high ROIs for the investments that we make, and we wanna maintain a leverage posture that allows flexibility and agility to execute opportunities for shareholders that we think we might be uniquely positioned to unlock. If we move from there into our capital allocation priorities, again, no changes. Business reinvestment, especially in the core, remains our highest priority. This is where we should expect the biggest returns against our core brands, including Reese and the others.

We also wanna grow the dividend in line with earnings over time. Below that, as Michele said, we also wanna grow inorganically, and so we do have a pipeline of M&A that we are looking at all the time. But as we've said before, we're picky. And we really wanna find those unique assets that have scale and allow us in some differentiated way to create value for shareholders. Share buybacks will always play a role in our capital allocation philosophy. As you know, for 2024, we've put more into that space, and for us, buybacks plays an important tensioning rod in the system. Because if we can't get good enough ROIs and returns on capital investment or other places, then we're gonna return that cash to shareholders.

And then, finally, again, we wanna maintain a very flexible leverage posture The last few years, it's no secret, we've invested quite a bit in capital spending, especially in capacity and also technology. And Michele talked about some of those technology investments. On the capacity side, as you know, we've invested behind our biggest brands, especially Reese, and that's one that we're excited to be able to drive more production and more volume off that expanded base. We've also been expanding in snacking scale, as Michele said, taking the disparate businesses in aligning them into one with now an internal manufacturing base that is strong, supplemented by external support.

And then, finally, we continue to also invest in supply chain technology, able to unlock more efficiencies through automation. As we've seen, the past few years have been high, but we're beginning to migrate back down to what we would call our long-term goal, which is 4% of sales, more or less as our CapEx target. 2024 takes us a step in that direction. And as we get to

'25 and '26, we're gonna see more progress inside that cost envelope.

One of the areas that we have invested, as Michele said, is the ERP transformation. And this is huge for the company. This will be our third and final installment in this story. We've had two good chapters so far and we're well prepared for this final stage. And with this, we get a lot of productivity gains. For the first time ever, we will have visibility to 95% of our transactions all beyond one system all around the world. We'll have more inventory visibility; we'll have more ability to connect the demand signals on one end with the supply chain reaction on the other end in an automated system.

And so, we're excited to be able to implement this, move past it, and begin to unlock some of the savings that we have earmarked for it. Which brings us to the automation and agility initiative that Michele mentioned. This is a part of that down payment or repayment on the S/4 investment, but also the other capability investments that we've made. We said we wanna deliver $300 million over the next three years, including $100 million in 2024. And you can see, it's a mix of some additional productivity and supply chain componentry, but also a special focus in SG&A which is where this new system will create more opportunities for savings.

And I wanna be clear, this is in addition to the $400 million of savings that we talked about last year in our investor conference that was focused more on supply chain savings. This will add to that and in fact take even more automation into procurement and supply chain areas. So, I know we've got a lot of Q&A, and so I will just close by echoing what you saw in the press release this morning, which is that we are reaffirming our outlook for this year. And with that, we'll go to questions.

Melissa: Yes, Ken. It'll come eventually. There we go. All right. It's coming.

Ken: Hi. Thank you. Michele, can you elaborate a little bit more on what it means to, I think you said reimagine innovation? I don't think we saw a huge number of new products here. I know you're going through a lot of changes and certain hurdles you have to overcome right now, whether it's SAP or the cost of cocoa, and so forth. But what does that term mean? How should we think about that over the next few years in terms of adding to your growth, or just general thoughts? Thank you.

Michele: Yup. Absolutely. So, I would say we have always had a model where innovation is important in the category. We've categorized some of that innovation into kind of what I would say, A, launches like a Reese's Caramel that have a big impact, that are strong also drivers of merchandising and bringing along the core. And that's critical because we always want the core to be part of the news. We also need smaller news and flavors. As we reimagine innovation though, we're also incorporating things like new models, like the Shaquille initiative, where it's a whole new proposition, there's product innovation, there are new flavors, but there's also a new brand and new excitement that is specifically targeted to certain consumers.

So, we're really trying to expand how we think about the purview of innovation to be, that also includes a new marketing model to talk to consumers. It's gonna be much more of, you know, a one-to-one, and the role that Shaquille will play in engaging with consumers. So it's kind of more holistic than just the product focus.

Melissa: Andrew.

Andrew: Thank you. Michele, a couple years ago before the unprecedented inflation we saw for the whole industry, Hershey had moved, you know, very successfully, to sort of a different pricing model. One where it was less significant price increases, more frequently on sort of a rotational basis around the various parts of the portfolio. Obviously keeping aside what we've seen more recently, just over time, is that model still kind of how you see things moving forward when it comes to sort of pricing in the industry? Or has what we've seen more recently necessitated a shift in thinking on that front? Thanks so much.

Michele: Yeah, no, I would say there is no change to our pricing strategy. I mean, certainly pricing has always been a part of our growth algorithm on the top line, and we don't see that any differently going forward. However, as times evolve, we need to be dynamic, and we need to flex accordingly based on what we see happen with raw materials. So, certainly, some years we will have that regular pricing and some years we will need more pricing according to that.

Melissa: Go ahead, David.

David: Just thinking about the next few years and just the era that you, you know, if you look back in three years to these three years that we're about to go through, obviously ERP is gonna be a big part of that. It sounds like you're gonna be changing the way you grow; I'm guessing maybe a little bit more towards product and innovation. You had a very impressive lineup when we visited Hershey. Seasons has been a wonderful, you mentioned merchandising effectiveness, but it seemed like that has been an outside driver maybe looking back the last three or four years. Do you see it that way, going a little bit more towards product rather than perhaps the in-store seasons as a key growth driver and perhaps product picking up for a little less contribution from seasons going forward?

Michele: I mean, I think they're all important. I mean, certainly, we're seeing right now consumers are even more interested in seasonal celebrations during this time. So, I wouldn't say that there's a choice between one or the other. We will continue to drive news in the seasons and expand our offerings there. In all venues of retail, whether it's online, in-store, product innovation will always be a key. I think we will evolve how we do that product innovation to be more integrated with the marketing model. And then I know you let off I think a little bit with technology. I would say, as I think about some of the growth levers going forward for us, certainly, that is one that we see as a game changer.

Now that S/4 is in place, it's been our plan all along as we are now beefing up our technology capability, we see the whole unleash of how we operate, how we work, automation and efficiency, the use of artificial intelligence, all of that just really multiplicatively growing versus where we've been in the past. Even though we're using a lot of it now, we think it'll just be on fire as we go forward. Anything you guys would add?

Steve: I agree. I think we're gonna come out of the next three years much more efficient. We're already doing it in supply chain and for some of you, you've had a chance to see some of our facilities where we've had more advanced technology, you can imagine the next step for that. And then now the back office and the rest of the business on the back of the ERP transformation, that's gonna be big. So, three years from now, much more efficient.

Michele: Yeah, and with the unification of salty as well, the ability to think differently about shared services and centers of excellence because the commonality will be so much bigger across all of those areas.

Melissa: Bryan.

Brian: Thanks. Bryan Spillane, Bank of America. Michele, I guess since the earnings call, there's still been a lot of questions about pricing and pricing power for the category, so could you clarify a few things? I think on the call you talked about the ERP system is one of the events happening in the first half of the year and maybe, you know, kind of tough the take a price increase or any kind of price action while that's happening. So how much was that a factor versus just, you know, not feeling like the consumer can feel it or maybe retailers pushing back?

And then beyond that, as we think about cocoa prices and the case that it maybe stayed higher for longer, just how you're thinking about pricing maybe as a multi-year type thing. And I guess underneath that question is historically the category's been able to price through inflation. That doesn't seem to be the case right now. Is there a reason for us to believe that that's not the case going forward?

Michele: Yeah, so I'll start off, and I'll also have Steve jump in. First of all, yes, ERP does restrict what we're capable of doing. You know, we want as few changes as possible during that cut-over time period. So there is essentially a blackout window, as we've shared, during pretty much the first half of the year because of that. And so, that impacts what we're able to do. You know, I would reiterate, we remain committed to our long-term strategy, which has been the same over the years, which is we are committed to pricing to cover inflation.

We're committed to gross margin expansion. That's been a key part of it. We're committed to pricing as part of our algorithm, and we're committed to pricing to cover inflation. Now, is that always gonna be a linear straight line? It may not be exact linear straight line because we have to take into account all the marketplace dynamics. Where is the pricing on our input costs? Do we think it is sustainable? What do we think is gonna happen to it? And we take all of that into account as we make decisions. But certainly, we are committed to pricing to cover inflation.

Steve: Yeah, totally agree. And I would say even without ERP, if we took that to the side, to get all of that inflation back in one year would've been, you know, very, very challenging and probably very disruptive for the consumer. And so, over time, yes, we're committed to getting that back. That's part of our algorithm, that's part of our growth model. But recovery, even without ERP, in one year is probably not realistic.

Melissa: Go back to Max.

Max: Thanks. Max Gumport with BNP. Was hoping on popcorn, if you could give us an update on what you're seeing specifically. You've talked about over the last couple quarters, seeing weaker demand, consumer shifting to the higher calorie-per-dollar salty snacks. And also I think there's some element of yourself and another large manufacturer pulling back on investment at the same time last year. But I was hoping you could give us an update on what you're seeing in the category right now and how that informs your view on a potential recovery as we move through 2024. Thanks.

Michele: Thank you for the question. And I actually think you answered it somewhat how I would have, which is, yes, what we have seen is certainly there was some move of consumers looking for more satiating snacks, and then that was compounded by us pulling back on support of those businesses around the S/4 implementation time. Probably pulled back a bit more than we should have, but we wanted to be conservative in terms of being able to supply. And at the same time, the other large competitor ready to eat popcorn had made an investment decision to not invest in their brand, but to invest in a different category within their portfolio.

As we look at the timing, we're seeing exactly, we're tracking as we expected we would as we look at year-to-date retail takeaway data. We continue to believe that once we get into that, kind of, May timeframe, we will start to lap those factors. You know, we are back full support for the year behind the business. So we continue to believe…what we're seeing now is still some of those declines and trends, we anticipated that. But we think when we get into Q2, we come out of that.

Melissa: Rob?

Rob: Hi. Thanks. Dot's has been on a great run. And what I understand about it is it kind of had this unique kind of patchwork distribution system before coming to Hershey, and now you're integrating it. So, what are you doing to make sure that you don't disrupt what made that work for dots, and how is the new integrated system enhancing it?

Michele: So, we've done some very careful evaluation of the distribution system. There were many different venues of distribution including DSD and warehouse, and we carefully analyzed where we thought which was best, and what we thought the optimal hybrid model was. We did that based on analysis on our own, but we also partnered with our retail partners, some of whom have a preference for how it comes distributed to them, and we took that into account as well. So, at the same time we've been looking at all of our supply network and looked at do we have the strongest partners as well?

So, where we have chosen to go DSD, there are some cases where we're staying with partners we've had and other places we've made changes. I think we've had a very thoughtful approach. We've done a lot of in-market tests around where we wanted to make changes, to actually test the change to see what the results are, to see what would happen. And that gives us confidence that we've made the right calls there. But we're staying very close to it.

Melissa: Conscious of time, maybe one more here and then move to the breakout. Michael.

Michael: Michael Lavery, Piper Sandler. A little bit like Ken Goldman's question but the next line down on that slide, you talk about, I don't know if you used the word reimagining, but in a future state, you talk about price ladders and price pack architecture. And historically, that's felt like a strength of yours. So I guess can you give us a sense of what the upside is?

Michele: Yeah, we feel good that there is good upside there. So, certainly, within confection, we're working on several initiatives. You know, they take anywhere from 9 to 18 months in implementation, but we think it's always been a lever. If you look at the breadth of our portfolio, we've always capitalized on having different price points, different pack sizes so that there's accessibility for everyone. We also are at a point on salty where it is really time to leverage that pack price architecture focus on that business because really it had a couple SKUs at a couple price points, and that just doesn't make sense.

You know, if you look at others who play in those categories and segments, they've done a masterful job. And we've seen the opportunity, we've gotten consumer feedback where we need entry-level, like on Dot's. And on popcorn actually, people were looking for the bigger value packs. So, we're adjusting accordingly. Some of that is hitting the market this year, some of it will continue to hit next year.

Andrew: I think we'll wrap it up there. That's gonna be pretty tough to top. I think for the rest of the conference, we'll take it over to the breakout room. Quick reminder for everyone that lunch is next. So if you need something from the room, take it with you. And please, join me in thanking Hershey for generously sponsoring a break next Thursday, and an absolutely legendary CAGNY moment.

[END OF The Hershey Company.mp3]