



The Hershey Company

Third Quarter 2025 Q&A Session

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C O R P O R A T E P A R T I C I P A N T S

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Andrew Lazar, *Barclays*

Max Gumport, *BNP Paribas*

David Palmer, *Evercore ISI*

Leah Jordan, *Goldman Sachs*

Megan Clapp, *Morgan Stanley*

Tom Palmer, *JPMorgan*

Peter Galbo, *Bank of America*

Jim Salera, *Stephens Inc.*

Robert Moskow, *TD Cowen*

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PRESENTATION

Operator

Greetings and welcome to The Hershey Company Third Quarter 2025 Question & Answer Session. To join the question queue, please press star, one on your telephone keypad. 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, Anoori Naughton, Vice President of Investor Relations for The Hershey Company. Thank you. You may begin.

Anoori Naughton

Good morning everyone. Thank you for joining us today for The Hershey Company's Third Quarter 2025 Earnings Q&A Session.

I hope everyone has had a 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 prerecorded 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 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 for the GAAP results are included in this morning's press release.

Joining me today are Hershey's President and CEO, Kirk Tanner, and Hershey's Senior Vice President and CFO, Steve Voskuil.

With that, we'll open it for the first question.

Operator

Thank you. Our first question is from Andrew Lazar with Barclays.

Andrew Lazar

Great. Thanks. Good morning everyone and welcome, Kirk.

Kirk Tanner

Thank you, Andrew. Good morning.

Andrew Lazar

Good morning. Maybe to start off, I'd love to dig in a little bit deeper on your commentary around 2026. The company is looking for an on-algorithm top- and bottom-line year. This is consistent with the commentary you provided last quarter. Since then, cocoa costs have moderated significantly, even though Hershey's still looks for year-over-year inflation. The company has slightly lowered its tariff estimates, and base momentum certainly appears to be continuing, if not accelerating.

I think I the prepared remarks you make mention of sort of earnings recovery over time, and in fairness, you still need to see what elasticity looks like as the pricing flows through. So I guess I'm just curious how you sort of balance these various factors as you think through how next year could shape up, because as you know, there are some expectations out there for maybe much more significant year-over-year EPS growth next year.

Kirk Tanner

Thank you, Andrew. I think that it's an important topic to get the morning started.

Yes, if I think about '26, I look at where we're at right now. So, the momentum in the business right now I'm really delighted with the balanced growth that we're seeing across our portfolio, so I feel good about that before going into 2026 and I think it's important as you take that momentum into 2026.

I think defining what success looks like is really important for us for 2026. For me, that is looking at where the category is and how we're growing with or ahead of the category while we build back that margin to its full potential. Now, we won't do that just in one year, but we'll do that over a few years. But it's really important that, one, we grow, and we are doing exceptional at the category level, building back margin. So, what does that do?

It puts us on our long-term algorithm. That long-term algorithm from a revenue standpoint of 2% to 4%, that is sensible. We think that's where the category is going to be. Now, in a shorter Easter category, generally, from a historical standpoint, it's been around 2%. So when you think about the top line, that's where we land.

Now, on EPS, back on algorithm, I would say there is some potential for some upside. But we do all this in '26 with the approach of playing for the long-term. So we're going to continue to—we're going to invest in our business, we're going to invest in our brands while we build back margin and compete at the category level. That is success for us in 2026.

Andrew Lazar

That's really helpful. Appreciate that. Then just quickly, I know it may be far too early to really opine on this with any accuracy, but I guess, what are you seeing thus far from an elasticity standpoint? I know there's more pricing still to flow through. I guess, what's your expectation for elasticity in the context of your guidance for next year? Thanks again.

Steve Voskuil

Sure. I'll take that one. I mean, it's early days. So, we'll know more the next time we talk.

Category continues to be rational. And everything we see so far, nothing gives us concern or is deviating from our expectations.

Most of our pricing is reflected, as you said, other competitors' pricing still flowing through. We saw earlier in the year, other competitors taking prices. We saw premium go up. We saw private label go up. And so, everything that we're seeing as our pricing has come to shelf is lining up within expectations.

As you said, next year, that elasticity is a big assumption. I know we've had some folks who said, well, are you being a bit cautious or conservative in the way you're thinking about that elasticity as we planned it at minus 1? But we feel like it's an appropriate kind of center cut as we look at the plan for next year. This year, it's been running a bit better with the price increase that we've taken into this year. But this year also has a few positives coming along. Whether it's a long Easter, the merchandising benefits that we had early in the year, the significant innovation benefits and so, when we adjust for those, as we think about '26, we think that minus 1 is the right place to plan from.

But, we'll be watching the space closely. Nothing at this stage gives us concern.

Andrew Lazar

Thanks so much.

Operator

Our next question is from Max Gumport with BNP Paribas.

Max Gumport

Great. Thanks very much. Just following up on that elasticity response, and I realize it's early, but if you can just focus on the everyday business and give us a bit more color on what you're seeing in these first few weeks, particularly given the comments around double-digit growth across the everyday business over the past (inaudible), what you think that means for elasticity. I realize it's early. I realize you're planning on the minus 1, but just any incremental color there would be helpful. Thank you.

Steve Voskuil

Yes, I would just say again, no concerns on what we're seeing so far. If you look at everyday CMG, where the price increases hit, we're up double digits in the last four weeks. So, feel good about what we're seeing so far, but more to play. We'll have more to say the next time we talk.

Max Gumport

Great. Then on competition, I think there's been a narrative that some competitors are not following, and you just touched on this, but when I look at the data, it's not as clear to me that's the case. I think if you look at your largest branded competitor, while their pricing might not be as high on a year-over-year basis, it looks like perhaps you two are simply moving at different cadences, with them moving harder earlier in the process.

I think if you go back to where you all were four years ago, it looks like you're actually still just catching up on pricing relative to that period. With that backdrop, I'm hoping you can provide a bit more color on what you're seeing in the competitive pricing environment right now. Thanks very much.

Kirk Tanner

Yes. Look, I think that's an important point, and I had the opportunity to look at the competitive landscape and look at our pricing cadence as it relates to that. The most important thing for us is we put the consumer first, we look at our business, we do it on the cadence that makes sense for our business and our consumer, and we're working with our customers to make that happen in the most deliberate way so that we can continue to deliver for our consumers. And that, I think, is really important.

Now, the cadence, yes, it's probably a little different from historic purposes, but I look at it from what is the best solution for the category, our consumer, and for our business.

Steve Voskuil

Yes. And a pretty significant part of our price increase—and you mentioned this—was catching up to what happened earlier that competitors have done. So, there was a time in history where everything moved in lockstep. Now, I think everyone is more precise, more strategic as to the way they execute pricing, and that leads to different phases. But overall, we're not concerned about price gaps across the portfolio.

Kirk Tanner

I would say one thing to look at is this category has been very resilient and rational. I think that's really important when you look across the industry. That gives us the confidence that we're making the right decisions and we don't have concerns at this time.

Max Gumport

Great. Thanks very much. I'll leave it there.

Operator

Our next question is from David Palmer with Evercore ISI.

David Palmer

Good morning. In the prepared remarks, you noted Halloween has been disappointing. Love to get some color about how much is—by what sort of level has it been disappointing? You've noted, Friday – Halloween, warm weather. Have you seen similar headwinds with those types of dynamics to what you're seeing here, or do you—you're reflecting on this. Do you think there might be something going on with the consumer, the customers, in terms of their focus on the seasons, the competitive environment?

And then, relatedly, you said that you're using this opportunity to analyze the trends and to adjust the product lineup and marketing strategies for future seasons. Just curious about what you're thinking as you reflect on this so far.

Kirk Tanner

Yes, David, thank you for the question. I think it's certainly timely.

I'd start with we're pleased with the strength in the overall business with more balance across our portfolio.

And we mentioned our everyday CMG business is growing double digits the past four weeks, so there's certainly some interplay that we typically see.

We'll say the season did get off to a slow start. I think you have to look at historically, when Halloween falls on a Friday, about a third of the business is sold the last week. So, I think it's really important.

Having said that, yes, there's some opportunities for us. I would say it's not broad based, but there's some opportunities for us to go to school on the consumer insights, our customer insights, so that we can improve on every season, including next year's Halloween. So, we will look at pack types, offerings, opening price points, product mix, all that through the lens of the consumer. Yes, I think this is an opportunity for us to go to school and get better with each season.

David Palmer

Just to follow up on, you noted that cocoa is going to be inflationary in '26. Does it feel like retailers are sympathetic to where you are with your pricing and your input inflation? You seem to have hedged very well

in '25. Maybe somebody didn't out there and their timing of their pricing might be mismatching yours. So, I'm wondering if there could be some noise out there with regard to competitors and other pricing actions that could affect near-term results. I'll pass it on. Thank you.

Kirk Tanner

Thanks, David. I think it's a really important, one, that we have relationships of trust with our customers. And building those are critically important to me and our entire organization. We have that customer mindset. And with this pricing, we have worked hand-in-hand with our customers to find solutions to meet consumers where they are.

I would say from a cocoa standpoint it's still 70% higher than it was in 2023, so, I think that just grounds us all in where cocoa is today. I know we're optimistic with some of the movement recently. But if you just look back, that's really important to understand.

But I'd say with pricing, very planful approach. You know, I have a fresh set of eyes on our approach and our communication to customers, our partnership with customers, and I've had the opportunity to talk to a lot of our customers myself. That is something that's really important that we get that right with our customers.

David Palmer

Thank you.

Operator

Our next question is from Leah Jordan with Goldman Sachs.

Leah Jordan

Good morning. Thank you for taking my question. I wanted to ask about innovation. It's obviously been working well this year, especially in the back half here. So, as we look to '26, could you provide some color on how you're thinking about the pipeline there? What are the key focus areas? How are you thinking about balancing growth in the core versus innovation into next year, especially as we kind of lack some strength here in the back half.

Kirk Tanner

Yes, I think that's a really good question. Innovation is so important to the category. Consumers are continuously looking for it. The recent innovation that we put out with Reese's Oreo has been really the top driver of growth from an innovation standpoint in the category. So, it's something, something to look at and be excited about.

But when I step back from that, I look at our core business, even in Q3 where our core business was close to 5% growth without Reese's Oreo, and that says something about the balance of what we expect. Now, we're going to have the benefit of most of next year with Reese Oreo. We'll continue to build on that momentum and find exciting ways to connect consumers with that innovation.

Having said that, we have a robust pipeline in 2026 of innovation and 2027, so we feel like we're building this pipeline of innovation because that's, again, engaging with consumers is important, all while balancing your growth with your core business. I think that is really important. That's kind of how we see this. We cannot rely just on innovation to drive our business. It's a balance between the two.

If I look at Q3, we have struck that balance with a really good innovation.

Leah Jordan

That's very helpful. Thank you. Maybe just a quick follow-up here. It sounded like there was increased brand investments in the quarter. Maybe you could just talk about where you're making those investments and what you're seeing in the competitive environment broadly. Do you see a need to make more investments just in the current environment? Thank you.

Kirk Tanner

Yes. Yes, I think it's important to invest. I think there's a smarter way to invest in brands as well, right? So, there's a more efficient way to invest in brands.

I think that, obviously, with Halloween and the holidays we've invested in some digital marketing to drive performance, drive flow-through, etc. I would say we've had some fun with some innovation with Reese's Oreo as well. Those investments have given us the momentum and really are on strategy for how we think about our business going forward.

Leah Jordan

All right. Thank you.

Operator

Our next question is from Megan Clapp with Morgan Stanley.

Megan Clapp

Hi. Good morning. Welcome, Kirk. Thanks for taking my question.

I wanted to come back to the commentary on 2026 and Andrew's question at the beginning. Last quarter, there was a comment on the call that there were multiple paths to EPS being well into the double-digit range in 2026. I think the biggest factors mentioned at the time were what happens with tariffs and cocoa costs. Understand, Kirk, I think you said they're still upside to the algo. But as you think about some of those puts and takes today, would you say that anything has changed that would affect that view? Cocoa has obviously come down. Maybe you're a bit more covered for 2026 though at this point and broadly any visibility on potential tariff relief as well. Thank you.

Kirk Tanner

Thanks, Megan. Again, to comment on the potential upside for EPS, I'll let Steve kind of go through the puts and takes that you asked.

Thanks for the question, Megan.

Steve Voskuil

Yes. As Kirk said earlier, above algorithm performance, definitely on the table. There's a handful of things that we're going to be watching really closely, especially as we finalize the plan.

Consumer demand, of course, the health of the consumer, right now, big focus. Right now, we're optimistic on that for next year, but we'll be watching that. We talked about innovation. Feel really good about our innovation, Oreo continuing, a lot of tentpole events next year so we think that's going to be a big year for innovation.

Elasticity, of course, as we touched on in the question earlier.

Then, as you said, cocoa and tariff relief. We're feeling marginally better about cocoa I think when we talked last time, since then it's moderated a bit. We're in the process of layering in our hedges according to our program and we'll have more visibility when we talk next time. But net-net feeling a bit better from a cocoa standpoint.

And tariffs? Ongoing, changes week to week. You know, I think the first prize we were hoping for a blanket exemption is probably not in the near-term cards, but we've seen significant acceleration on trade deals. And so, now that cocoa and other commodities we can't make here a part of that third annex, as those deals come in we're optimistic we could see some positivity there.

For now, we've modeled \$200 million incremental on tariffs and still have in our model cocoa inflation for next year, but I would say that level of inflation is moderating and we'll know more when we talk next time.

So, overall, not that much different from last quarter other than maybe a little bit more optimism on tariffs and cocoa.

Megan Clapp

Awesome. That's super helpful.

Then maybe just more near-term on the implied 4Q, it does seem like most of the increase in the full-year top line guide was driven by what you saw in the third quarter. I think depending on rounding, implied 4Q is maybe a little bit below where the Street's modeling. Maybe part of that's due to the international shipment timing. Could you just maybe give us what you're expecting for the fourth quarter explicitly and whether the outlook for North America Confectionary has just changed at all just given the puts and takes between Halloween and every day? Thanks.

Steve Voskuil

Sure. Yes, most of that impact is international shipment timing from a U.S. CMG standpoint. We see the momentum continuing. As Kirk said, we're directing some additional investment to help Halloween sell through in performance and also get holiday off to a good start, so, that's a little bit of why the EPS doesn't follow the sales on the back half or the guide up on EPS is a little softer than it is on the top line. But we also watch, as we always do, the timing of cocoa hedges which was a favorable for Q3; we're not expecting quite that same level favorability as we close out the year.

But yes, on the top line, that international timing is probably the biggest thing. We expect CMG momentum to continue.

Leah Jordan

Awesome. Thanks, Steve.

Steve Voskuil

You bet.

Operator

Our next question is from Tom Palmer with JPMorgan.

Tom Palmer

Good morning. Thanks for the questions. I'm going to maybe stick to Halloween for a second.

You noted the slower start to Halloween and that when Halloween falls on a Friday there can be this last week waiting. If we do get a third of your Halloween sales in the last week, would it be more on track with how you're thinking about it? Or do you need even more of kind of a disproportionate catch up when we think about this year? In particular, I want to make sure how this relates to kind of what's embedded in guidance. Thank you.

Kirk Tanner

Yes. I think that to get straight to it, I think it still would be somewhat soft. I think that we would walk away saying that Halloween by itself is going to be a little soft in this season.

I do think there, the interplay between our core brands is happening and we're seeing some of that in the insights that we're looking at. I think that's obvious. We also have a big innovation out there. And we have core packs that are performing well. So, the interplay between Halloween the season and our core packages certainly is something we're going to school on and we can talk about later.

But let's see where the week comes in and then we will share the insights and some of our action plans moving forward. But winning at the season is critically important to us. We continue to build on our capabilities through insights and the actions that we need to do to move the business forward.

Tom Palmer

Okay. Thank you for that. Then just, look, I think on the cocoa commentary, I want to clarify, one, at some point next year your cocoa costs likely turn deflationary, even if they're up for the full year. I'm curious your views on pricing as inflation eases. I don't think you've historically given back pricing, but we are facing kind of unusual levels of both inflation and potentially deflation, so, I wanted maybe a clarification on how you're thinking about it this time. Thanks.

Steve Voskuil

Sure. On the first part of your question, yes, I mean, the expectation right now with where cocoa is, I would hope as we get deeper into '26, we'd start to see some deflation. Again, we'll have a better picture of that profile when we talk next time, but just based on what we're seeing right now and looking year over year.

Again, giving back price, I got to start with a comment from earlier. You know, we're still seeing cocoa up 70% from where we started the cocoa inflation journey and so we haven't fully recovered from that. And again, pricing is not the only lever. We are driving the transformation program. We're driving savings, so, we will continue to use every lever at our disposal to do that.

But at the same time, we want to make sure that we're investing in our brands and that we're driving good partnership with retailers and making sure we're helping to, again, grow at or above the category. So, we're going to have a focus on balanced recovery, as Kirk said earlier.

Tom Palmer

Understood. Thank you.

Operator

Our next question is from Peter Galbo with Bank of America.

Peter Galbo

Hey, good morning, Kirk and Steve. Thank you for the questions.

Steve, not to belabor the pricing dynamic point again, but I do think some of the hesitation maybe is stemming from the fact that one of your peers operating in Europe kind of talked about a need maybe to solve some price gap issues. You obviously have a peer that competes both in the U.S. and Europe, so, the translation of that dynamic happening in Europe, back to the U.S., is there kind of a future where the same thing happens?

Maybe it would be helpful just compare and contrast just the structural factors that might make the U.S. market where you operate different from that pricing standpoint. I think that would help clarify a bit of the fear that's out there that hey, there's all this pricing that's coming in the market, but with cocoa coming down, are they really going to be able to kind of hold through?

Steve Voskuil

Yes, you bet. I do think it's two different markets, and I think we have to be careful kind of taking the assumptions from one and applying them to another. The U.S. category, CMG, has been very resilient. It's been very rational and we just aren't seeing today any major price gaps that are causing us concern.

Obviously, we're watching consumer health. We're partnering closely with retailers to make sure that the category stays healthy and growing and we want to be part of that with our innovation and brand investment, et cetera. But it is a different situation here than what you're seeing in Europe. And that rationality here, I guess we have no reason to believe that's not going to continue based on everything we're seeing even in the market right now.

Peter Galbo

Great. Super helpful and clear.

Maybe as a follow-up, Steve, I actually wanted to ask on international. I know you had the shipment favorability dynamic, but it was actually a loss-making quarter in that business. So, I guess just applying that forward, right, if you don't have the favorability on shipments in Q4, should we be expecting, I don't know, the next couple of quarters that you might still be playing catch-up to get back to profitability, or how we should think about that segment specifically? Thanks very much.

Steve Voskuil

Yes. Yes, it's a great question. We don't always have time to talk about international.

I think it's a challenging market because a lot of our business in international is cocoa-driven and even cocoa-intense in some markets where the percent of cocoa is part of the advertising. And so, it feels more of the brunt from cocoa. It'll also eventually feel more of the recovery when we get to the other side.

We've been more aggressive on pricing in international, but because we're a smaller player in some of those markets and our products are positioned in a more premium way, the elasticity impacts are also more severe than what we model here in the U.S.

That said we're optimistic on the business. And, in fact, we're growing share in all but one, probably, of our core markets right now. We feel good about that. We've had great results in Brazil. And, yes, profitability isn't there right now, but we still are optimistic about the market and our ability to grow and eventually return to profitability.

So, despite the numbers, we're optimistic on the future, but we have to work through the cocoa challenges there a little bit more intensely than we do here in the U.S.

Peter Galbo

Great. Thanks, guys.

Operator

Our next question is from Jim Salera with Stephens Inc.

Jim Salera

Good morning, Kirk, Steve. Thanks for taking our question. I wanted to maybe shift gears a little bit and ask on salty snacks, given the strong performance you guys saw there.

I think you mentioned in the prepared remarks you did 14% year-over-year increase in consumption. I saw share gains in salty, particularly driven by volume, which is in pretty stark contrast to a category that's been anemic kind of at best this year. Can you just walk us through what are kind of the driving factors there and maybe any commentary on 4Q about how we should think about that business kind of closing out the year and anything we should be aware of maybe on the innovation side?

Kirk Tanner

Yes, Jim, thank you for the question. Look, our salty business, I'm really excited about this. We continue to build capabilities with our salty team and our salty business, and I look at where we are in the category with our brands and how important that is.

With Skinny Pop leading in the popcorn category, it of course went through a refresh. It's got a new look, and it's delivering against growth. We're working on portion control and multi-pack is working. So, we see a lot there, but, again, it's grounded in permissible snacking, premium snacking, and that makes a difference.

When I look at our pretzel business in DOTS, DOTS really has made an impact on pretzels. Now, DOTS is the leader in the pretzel category. For a young brand, that's pretty impressive. It's hitting on a lot of marks with consumers. It is definitely in the right place in the category, and it's helping the category grow.

And then I think we still have a lot of opportunity with Pirate's Booty. It's in Puffs. Puffs is the third largest part of the category, and we're just scratching the surface. It's over a \$4.5 billion category. We have an opportunity to play in that with a mom-preferred loved brand.

The collection of brands that we have in the right places with permissible snacking allow us to grow ahead of the category.

We'll continue to build on that momentum. We'll continue to look to our salty business to scale that and build our capabilities. Having a lot of experience in this area, I'm really optimistic of where we can take the salty business.

Jim Salera

Great. Maybe just any commentary you could provide on innovation and to the extent that you can maybe point us in a direction for 4Q. Should we expect kind of continuation of where we're at now? Acceleration? Just any thoughts around that to close out the year.

Kirk Tanner

Yes. Yes. We see the same, the momentum moving forward into 2026.

We have some innovation on DOTS that I'm really excited about. We also have innovation on Skinny Pop across the portfolio. We've looked at multiple areas across kind of all three brands, actually, and there is a pipeline of innovation across our portfolio.

So, yes, more to come on the launches of the innovation. But, yes, we have a pipeline that will drive growth and delivery. There's some exciting things across DOTS, Skinny Pop, and Pirate's Booty.

Jim Salera

Great. I appreciate the color. I'll hop back in the queue.

Operator

Our next question is from Robert Moskow with TD Cowen.

Robert Moskow

Hi. Thanks for the question, and welcome, Kirk. Two questions.

One is, Steve, when you're giving the factors that might determine whether there's double-digit potential, you mentioned several, but is it fair to say that elasticity is probably the biggest and most determining factor? And since it's hard to predict, would you consider providing a wider range than normal for 2026 guidance to take that into account? And then I had a quick follow-up.

Steve Voskuil

Sure. Yes, great question. I would say elasticity probably is the biggest. Obviously, cocoa is huge as well, but elasticity is one we'll be watching very closely. You know, from what we see now, like we talked about earlier, not concerned, but we'll be watching it closely.

On the range, it's an interesting point. I think that's something we'll give some thought to between the time here and giving guidance, depending on what we'll see. I think we will see more on elasticity. We'll have a better view of cocoa by that point. Maybe tariffs, maybe not. But it's a good point and something we'll probably think about.

Robert Moskow

Okay, thanks. In doing a deeper dive into these price gaps that emerged, what we really found was some pretty sizable ones in king size in the convenience channel after you raised price between you and your biggest competitor. But I think your competitor raised prices since then. So is it fair to say that that gap does exist, but it's just kind of temporary and it will close soon?

Steve Voskuil

Yes, I would say I don't want to get down to pack type by pack type retailer sort of detail, but like I said, we have all of that. We've seen what you're talking about on king size. We look at every pack and every retailer. Right now, there are some gaps in places. Some of those gaps are closing. Some of those gaps may hang around for a while, but as we look at them in the aggregate there's nothing that's concerning us at this stage.

Recall there is this sort of give and take, and we talked about it before about the cadence of the follow can take a little while. Sometimes we choose to take a little while to follow. This is part of the category, which is still rational; it just doesn't fall in a perfect cadence all the time.

Robert Moskow

Great. Thank you.

Operator

Our next question is from Alexia Howard with Bernstein.

Alexia Howard

Good morning everyone and thank you for the question, and welcome, Kirk. Can I ask about the C-store channel? I think Rob mentioned it. It seems as though you were having some trouble with that earlier in the year. It seemed to be in recovery, I think, over the last few months. Is that still going fairly strongly at this point? And then I have a follow-up.

Kirk Tanner

Yes, thank you. I appreciate the question. I'm really passionate about the convenience channel. I just had the opportunity to be at NACCS in Chicago and talk to a lot of our customers.

Look, I think about the performance of the category in convenience right now, and CMG is performing at a plus 6, so pretty healthy cadence in CMG right now.

I think there are still some opportunities for us to get stronger. We are hyper-focused on IC and our ability to execute, and we've rolled out these gold-standard merchandising plans. We've built this innovation pipeline. We're building on tentpole moments, all with the lens of delivering for our convenience customers. So there is a level of intensity that we're putting against the convenience channel because we know it is a priority. We know IC is a real priority for us as it's a big brand builder and an area where we can continue to grow our brand.

We're going to show up strong. We like the momentum that we have. We still think there's opportunity for us to get better, and we'll do all that with the partnership with our convenience customers.

Alexia Howard

Thank you. And as a follow-up, there's been a lot of questions on innovation. Are you able to put any numbers around that in terms of percentage of sales from new products introduced either over the last year or last three years, and how that's ramped over time? Because it seemed as though innovation dropped off in the years immediately after the pandemic? Thank you, and I'll pass it on.

Kirk Tanner

Yes. Innovation is such an important lever for sure, but I think being consistent with innovation is also important in balance with your core business.

I'll tell you one thing that I really liked about this last innovation that we launched with Reese's Oreo, especially in convenience as we're talking about that channel, is we co-merchandised it with our core brands and we saw our core brands elevate with innovation. I think that is just a testament to the execution that we have in the marketplace.

Not just highlighting our innovation, but bringing our core along with it I think is a really good thing for us to do. It's a fundamental that we believe in, and so that I think takes the total portfolio into account. I think innovation is critical. Consumers are looking for it, but if it can help build your core brands as well, I think you're in a much better place.

Alexia Howard

Thank you. I'll pass it on.

Operator

Our next question is from Scott Marks with Jefferies.

Scott Marks

Hey, good morning. Thanks so much for taking our questions. You've made some comments today about monitoring the consumer health, and I think we've heard from some of your peers about more broadly just weakening U.S. consumer sentiment. Just wondering if you can share with us your thoughts around what exactly you're seeing with the consumer and how you're thinking about that as we head into the holidays and 2026.

Kirk Tanner

Yes, I think that's an important topic, and I've had the opportunity to talk to a lot of our customers as well.

I think the consumer certainly is continuing to be challenged. It's a challenging consumer market, and there's a lot of headlines that have been talked about driving that concern. But I would say our category remains resilient. I think that's an important thing to think about. So the impact of consumers, how that interacts with the category and how it's reacting to our business, I think those are the dynamics we look at.

But I would say in large part, yes, the consumer is certainly under pressure. Our category is showing up resilient, I think, really importantly. And then as we look into '26, we see the category running at historic levels with those pressures. So I feel really confident about where we're at in light of a challenged consumer.

Scott Marks

Appreciate that. Thanks. Then just a follow-up question.

We've also started to hear from some of your peers about expected headwinds from changes to the SNAP program, both policy changes which could be more structural, and then maybe more temporary government shutdown-related issues. Just wondering if you can share with us some context around how you're thinking about potential SNAP headwinds for the business. Thanks.

Kirk Tanner

Yes, I think that's an important one. Again, a live discussion that we've had with our customers and understanding the impact overall of SNAP.

If you just take a step back and look at SNAP, about 2% of SNAP dollars are in the category, the CMG category specifically. Right now, I would say we haven't seen a large impact, but it's early days. I think if you look into '26 with the dynamics between the state and the federal government on SNAP, we expect it to be a minimal impact right now on the category, but it's something that we're continuously watching and trying to understand.

I think it comes down to the behaviors of consumers that are in the SNAP program and how they choose to spend those dollars, but we will stay close.

But I would say in '26, it will have a minimal impact to the business from what we're seeing right now.

Scott Marks

Appreciate it. I'll pass it on. Thanks.

Operator

Our next question is from Michael Lavery with Piper Sandler.

Michael Lavery

Thank you. Good morning and thanks for the question.

Just wanted to come back to cocoa. You said that you could get some benefit if costs fall further, but it sounds like you're maybe also a bit decently committed and that you're focused with your hedges on visibility and less volatility. Maybe could you just give a sense of how wide a range is still ahead of you? You're forecasting it to be inflationary. That might moderate a bit, but would you be positioned such that it wouldn't be deflationary? Just maybe give us a sense of how wide a range of possibilities are still in front of you.

Steve Voskuil

Sure. Yes, I'd be happy to.

The fundamental hedging program, as you said, Michael, hasn't really changed. We're hedged, I would say, to the normal level we would be at this time of year, given that we still believe cocoa does have some room to fall based on the fundamentals that we've talked about in the past.

Right now, as we've seen on a full-year basis, we see it inflationary, but there is a possibility of deflation. The way we've structured our program, as many do, we have a mix of some things that are price fixed and some things that allow downside participation. So, between the unhedged portion looking forward and downside participation, there is potential if we continue to see some fall in cocoa that we could see some deflationary, but it just a lot depends on timing and the magnitude.

Michael Lavery

Okay, that's helpful. You've said in the past that around 75% of your portfolio is less than \$4. I guess, how does that look after this latest pricing? Is that sort of the key threshold? We hear \$3 from some other snack peers as maybe a key focus point as well. Any sense of maybe kind of where you are sitting today relative to maybe either one of those thresholds?

Kirk Tanner

Yes, I think that 75% of our units are below \$4. I think it's important to understand where consumers are with price points and with the offerings that we have, but I would say that that's largely the case today.

Michael Lavery

Okay, great. Thanks so much.

Operator

Our next question is from Chris Carey with Wells Fargo.

Chris Carey

Hey, good morning everybody.

Kirk Tanner

Good morning, Chris.

Chris Carey

We are late in the call, so I'm just going to ask a couple of clarifying questions if I could. Just on this conversation around algorithm for next year, kind of similar commentary despite the lower cocoa. Is it fair to say that if cocoa had not come down, you probably would have to take even more pricing in the next year, and now you're basically not in that situation anymore?

And then.... go ahead.

Steve Voskuil

No, I don't think at this point we're not focused on pricing. We've got the price increase we've just announced rolling through, but we continue to work all the other levers as well, whether cocoa goes up, down, or sideways in terms of productivity, driving our transformation savings, continuous improvement, etc.

Right now we're focused on driving—continuing the momentum in the business and making sure that we have the good execution on the pricing that's already in the market and focused on a balanced approach to driving the business for the long term.

Chris Carey

Great. I guess, is it fair to say that if cocoa did not fall, you would have to assess whether additional pricing would be needed? So just a quick clarification there.

Then, I think the tax rate came up. Obviously, there's been a sort of reorientation of tax rate. Can you just give a sense of what's going on there and medium-term tax planning and opportunity? Thanks.

Steve Voskuil

Sure. Just back to the first question, in '26 we would not anticipate taking more price, even if cocoa remained at prior levels.

Long term? Again, we have to manage over a long window, so to be on algorithm we would continue to look at pricing as a long-term lever, but not for '26. Hopefully that helps. Again, cocoa, we're still executing and making sure the price increases that we've announced flow through.

On tax rate, yes, happy to talk about it. It's been a bit of a change this year. In fact, it's probably been a topic every quarter. We have a couple things that are happening, a couple of which are unusual to this year and one that we're still working through for next year.

On one hand, we have three things hitting the tax rate. One, some adjustments in reserves based on some legacy positions and legacy litigation. We didn't have any of that in the third quarter, but you'll recall in a couple of earlier quarters we talked a little bit about having some reserve adjustments.

The second piece is related to some procurement strategies. Earlier in this year, as we looked at different sourcing alternatives for cocoa, which we pursued, drove great ROI, but had some less tax efficiencies than our normal procurement strategies.

And then finally, the tax credit strategies, which we've talked about. In the current environment, we just haven't found as many attractive tax credit investment opportunities. Again, we've got ROI thresholds,

quality thresholds, and with the movement in the investment universe for those, they just haven't been as attractive given our thresholds.

Those are the three things that have been impacting tax rate for this year. We'll give more guidance on next year's tax rate and some of the factors there when we get to guidance later.

Kirk Tanner

Hey, Chris, I just wanted to share my point of view on '26 and the pricing questions that you asked.

Look, I think if you go back to what we talked about, what '26 looks like from a success standpoint, certainly getting back on algorithm, we talked about the potential for EPS, but I think that it's really important to get this message across so we retain the flexibility to invest in our business. We're playing this for the long haul.

We have a lot of energy and enthusiasm in the business right now. We want to keep that momentum. There's also a lot of great new ideas to drive growth and health for the business over the long term while we recover our margin that that we've gone backwards on.

I think that balance, I think, is what I would leave you with, is we still have that flexibility. We're enthusiastic about what we see with momentum, but also the opportunities we have to invest in for the future. So, certainly a balance of how we build the business.

Chris Carey

Thanks, guys. I appreciate it.

Operator

Our next question is from John Baumgartner with Mizuho Securities.

John Baumgartner

Good morning. Thanks for the question. Maybe just sticking with convenience stores, Kirk, just bigger picture, I'd like to hear your observations of the retail landscape for competitive merchandising and promo. Just having seen it in your seat across multiple categories over the years, how promo merch has evolved given the rise of smaller brands, healthy snacks, non-CMG categories. How has competition changed for that high-visibility merchandising? How do you see confectionery positioned today to compete? Are there any changes you think Hershey can make in terms of either existing spend levels or types of promotion?

Kirk Tanner

Yes, I think that's the right question, and I think it is changing. I think, John, you've asked a good question.

Convenience is, if you spend time with the retailers, you'll see certainly new solutions to drive customer performance from their standpoint.

We've seen a lot of new merchandising strategies, a lot of new ways to deliver value for consumers across multiple categories in convenience. I think it's really important that we play a growth driver role inside the store and that is delivered across our core innovation, and how we deliver value in multiple transactions and things that consumers are doing.

I think that there's also new tools that are exciting. There's loyalty and tools that retailers are using that we're participating in that drive personalization and loyalty.

There's so many new fascinating ways to grow the business and, again, I'm super passionate about this channel and our opportunities to build brand and build momentum in it. It will be a focus point for us moving forward.

John Baumgartner

Thanks, Kirk.

Kirk Tanner

Thanks, John.

Operator

Thank you. There are no further questions at this time. I'd like to hand the floor back over to Anoori Naughton for any closing comments.

Anoori Naughton

Thank you everyone for joining us this morning. We look forward to our follow-up calls this afternoon. Thanks.

Operator

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