The Hershey Company

First Quarter 2023 Earnings Conference Call
Q&A Session

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CORPORATE PARTICIPANTS

Michele Buck, Chairman, Chief Executive Officer
Steve Voskuil, Senior Vice President, Chief Financial Officer
Melissa Poole, Vice President, Investor Relations

CONFERENCE CALL PARTICIPANTS

Andrew Lazar, Barclays
Ken Goldman, JPMorgan
Cody Ross, UBS
Nik Modi, RBC Capital Markets
Pamela Kaufman, Morgan Stanley
David Palmer, Evercore ISI
Max Gumport, BNP Paribas
Bryan Spillane, Bank of America
Michael Lavery, Piper Sandler
Rob Dickerson, Jefferies
Jonathan Feeney, Consumer Edge
John Baumgartner, Mizuho Securities USA
Jason English, Goldman Sachs
Chris Carey, Wells Fargo Securities

PRESENTATION

Operator

Greetings, and welcome to the Hershey Company’s First Quarter 2023 Question-and-Answer Session.
At this time, all participants are in 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 now begin.

**Melissa Poole**

Good morning, everyone. Thank you for joining us today for The Hershey Company’s First Quarter 2023 Earnings Q&A Session.

I hope everyone has had the chance to read our press release and listen to our pre-recorded 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**

(Operator Instructions)

Our first question comes from the line of Andrew Lazar with Barclays. Please proceed with your question.

**Andrew Lazar**

Great, thanks so much. Good morning, everybody.

**Michele Buck**

Good morning.

**Steve Voskuil**

Good morning.

**Andrew Lazar**
First off, I wanted to ask a little bit about the guidance update on the top line. The Company beat by a few points on the top line in the quarter, but when we take out the earlier summer shipments, which is really just timing. I guess results on organic were only slightly ahead of the street view, but Hershey raised its sales growth guidance to the high end of the previous range for the full year. So, I guess my question is what are you seeing at this stage that gave you the confidence to shift the top line guidance the way you did?

**Steve Voskuil**

Yes, thank you, Andrew. Yes, you’re exactly right. For the first quarter, the timing impact was about half the beat on the sales line, and also strong performance in international. So, those were the two big drivers. When we look to the balance of the year, obviously, the timing is going to wash out in the second quarter, but we do expect to see a little bit better elasticities in the year-to-go period. We still see it moderating versus some of the strong performance we’ve seen in the last six to nine months, but a little bit more improved, and we base that a little bit more on media investment that we also have incrementally in the year-to-go plan. So, between, I’ll say, the strength we saw in the international business, what we’re seeing on the back of improved elasticities a little bit in the year-to-go period, that’s what gives us the confidence in the raise.

**Andrew Lazar**

Great, thanks for that, and then, with the pull-forward of shipments from 2Q into 1Q, along with the tougher, I guess, year ago organic sales and EPS growth comparisons in 2Q, I guess, what are some of the key puts and takes to keep in mind when we’re modeling for 2Q? Thanks so much.

**Steve Voskuil**

Yes, Q2 will probably be our most challenging quarter, as I look to the balance of the year. We’re going to have the timing piece shift back out, but then also recall last year, with the big inventory build quarter, as well, and so when you look at the lap, it’s a pretty tough lap. That, combined with that point-and-a-half coming out, will put more to the mid-single-digit range, probably, from a sales standpoint, and that will put more pressure on the EPS side than the rest of the quarters.

**Andrew Lazar**

Great. Thanks so much.

**Operator**

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

**Ken Goldman**

Good morning. Two questions on capacity, if I could. First, I think your prior guidance, if I had it down right, was for five new lines to come on this year. I think you’re calling for four now. Am I reading that wrong or was one delayed? Then, I’m also curious to learn a little bit more about the Weaver acquisition, just in terms of how they may help you down the road in terms of added capacity or efficiency. Obviously, bringing plants in-house is generally a good thing for efficiency, but just in light of the fact that they already did make product for you, I’m just trying to get a little bit of a better sense of some of the benefits down the road for you. Thank you.
Michele Buck

Sure. There is no change to the number of lines, there are five lines, and I think there’s one that we just didn’t specifically call out in our remarks. So, no difference there.

Relative to Weaver, we feel very good about the acquisition. Weaver Manufacturing is currently a co-man of SkinnyPop. We acquired two plants, and, really, what it gives us are three things. It gives us sufficient capacity to be able to support growth for several years to come, and, as you know, we’re seeing very strong growth on SkinnyPop. It provides us with resiliency, and also flexibility, just so that we can continue to support the strong growth that we are seeing. As you know, as you look across our business, for strategic categories and businesses that we are in, we do like to have at least some degree of owned manufacturing across our network. We also feel pretty good about the investment return. At the investment that we made, we believe, given the quality of the assets, the fact the facilities are on the newer side, that it is faster and cheaper than if we needed to build this on our own.

Ken Goldman

Thank you.

Michele Buck

Sure.

Operator

Our next question comes from the line of Cody Ross with UBS. Please proceed with your question.

Cody Ross

Good morning, and thank you for taking our question. You’re implementing a high-single-digit price increase on 50% of your confection portfolio, effective at the end of May. I believe that’s correct, what you announced at the Analyst Day. How much do you believe will benefit fiscal ’23 versus fiscal ’24, and can you explain the mechanics of the benefit by the year?

Steve Voskuil

Yes, at a high level, it’s going to have, as we talked about in the Investor Conference, more impact in ’24 than it is in ’23. That’s based on, partly, the implementation date, and then also the fact that we have protection in place for big promotions and programming for a good part of the year, and we’re still working with retailers on the implementation, and so all of that will continue. I think, by the time we get to the mid-year mark and I have more visibility both on balance of ’23 and ’24 impacts, that we’ll be able to talk more about it at that time.

Cody Ross

Great, thank you, and then just a quick question on gross margin. Your gross margin came in higher than both years and the street’s expectation this quarter. You raised outlook to expansion of 70 to 80 basis points for the year. What gave you confidence to raise your outlook this early in the year, especially in context of your retail partners who are struggling to expand gross margin this year, based on their guidance? Thank you.
Steve Voskuil

Yes, thank you. Yes, it is early in the year. I think, in general, I wouldn’t look at raising our guidance, top line or bottom line, this early in the year. On the gross margin side, though, a couple of things. One is, clearly, we have some commodities that are getting more expensive; cocoa and sugar, in particular, are moving in the wrong direction. We have a few smaller non-hedged ingredients that are a little bit more favorable right now than they were, time will tell whether that’s going to be able to stick around, but probably the biggest piece is just freight and logistics improvements. If you recall, last year, at this time, when we did the call, that was one of the big, I’ll say, surprises on the downside, was increases in freight and logistics costs, and for the first quarter, at least, we saw some improvement in that, both on our supply chain, but also contracted support for getting trucks to show up for appointments and freight costs, and so forth. Those are really the drivers in the first quarter that we captured in the outlook. Time will tell, as the year goes on, how the rest plays out, but that’s what gives us the confidence, is really just the first quarter performance.

Cody Ross

Thank you very much. I’ll pass it along.

Operator

Our next question comes from the line of Nik Modi with RBC. Please proceed with your question.

Nik Modi

Yes, thank you. Good morning, everyone. So, just a quick clarification on international. I saw the comments you put in the prepared remarks, but maybe any more context on exactly some of the specific initiatives, outside of a recovery in travel. I’m just curious on—you know, it was a very strong number relative to expectations. Then, if you could just touch on the market share commentary you made in the U.S., kind of what’s driving some of that. You talked about the mix, but I was kind of unclear exactly what that was referencing.

Michele Buck

Yes. I mean, if we look at the initiatives in international, we’ve seen category strength across the markets. We saw a stronger Easter season in Brazil than we had anticipated. We continue to see distribution gains in Mexico, and also in India. So, across the board, some strength there. We do expect some moderation going forward, because we have some pretty strong laps, but our demand has really remained pretty resilient. Then, we’re also seeing some impact from timing. You may recall, in Q4, consumer demand outpaced our shipments, and we’ve recovered some of that in the first quarter.

Can you repeat your share question one more time?

Nik Modi

Michele, I was just hoping you could provide some context on the U.S. share commentary you had in the prepared remarks and the press release. You had referenced, I think, in the prepared remarks mix was a driver and I was just unclear, but if you could just provide any context on some of the market share trends that you’re seeing.

Michele Buck
Yes, absolutely. We definitely—if we look at Easter, we had some impact from supply constraints. We anticipate by Halloween and holiday, those will be behind us, but that impacted us. Then, also, we continue to see very strong growth in sweets, and then, also, that rebound of refreshment from some of the weaker trends in that post-COVID type of era. So, really, mix as an impact.

**Nik Modi**

Great, thank you. I'll pass it on.

**Operator**

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**

Good morning.

**Steve Voskuil**

Good morning.

**Pamela Kaufman**

I was hoping that you could talk kind of generally about what you’re seeing in the consumer demand environment. You’ve seen strong volumes despite strong pricing growth. So, how are you thinking about the consumer and elasticities over the course of the year?

**Michele Buck**

I’ll start by talking a little bit about the trends and I’ll let Steve talk about elasticities.

Certainly, consumer behavior continues to evolve, and we know that many consumers have made changes to their spending to respond to inflation in the marketplace. We certainly continue to see that food has performed well, compared to other categories; specifically, food at home, as it’s a much more affordable option for consumers versus dining out. We also know snack and candy continue to perform even better than broader food and elasticities in those categories have continued to remain pretty strong, and we do expect that we’ll continue to see strength in those elasticities. We know that consumers are being increasingly mindful about where they shop. They are looking for more affordable options, whether it is the channels in which they’re shopping, whether it’s private label, whether it is deals and increased promotion, and we are constantly carefully monitoring those strengths, just to make sure that our media and our in-store activations are really optimized, so that we can align to the trends that we’re seeing.

Steve, do you want to talk a little bit about elasticity?

**Steve Voskuil**
Yes, on the elasticity side—we touched on this a little bit in the first question—we still expect elasticity to moderate as the year goes on, but in our outlook now, a little bit less severely than we did in our original plan. We'll see how the year plays out, but that's our current assumption.

**Pamela Kaufman**

Okay, thank you, and my second question is just on the ERP implementation within snacks. Can you touch on what benefits you expect to realize from it and what impact is factored into your guidance for this year from the ERP implementation?

**Steve Voskuil**

Sure. We have the impact of the transition on the ERP baked into the guidance. We've profiled that out across the quarters, including some inventory build in advance of the changeover, and then the changeover itself in the back half of the year.

In terms of benefits, it's a critical ingredient to driving efficient scale across the businesses. We touched on that a bit in our Investor Conference, as well. One of our goals is to drive scaled efficiency on all parts of that business on the front end, the supply chain side, and so forth. This system is important to get them on the same system the rest of the Company will operate on, so we can operate the back office efficiently, we can operate the front end efficiently, have more inventory visibility, better planning capabilities, and so it is integral. We're excited about it. Everything to date is on track, and we'll look forward to getting that behind us later this year.

**Melissa Poole**

Pam, I think we did on the last call, we made a call about the impact. It's about a half-a-point headwind for us for the full year related to that transition, all focused in the fourth quarter, for salty.

**Pamela Kaufman**

Great, thank you.

**Operator**

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

**David Palmer**

Thanks. Good morning.

**Michele Buck**

Good morning.

**David Palmer**

In your prepared remarks, you mentioned—good morning—you mentioned that you'll be in a strong position to fully support consumer demand for the rest of '23. I wonder if you could give some color about that. It's obviously ahead of some of that 5% increase in production that you're expecting to add. So, is it
COVID-era issues with labor constraints in your supply chain, is it the upstream suppliers coming through? And I have a quick follow-up.

**Michele Buck**

Yes, I mean, I would say the recovery that we anticipate is really driven by the increasing investments that we’ve continued to make over the past several years in capacity. Obviously, some of them take some time, to be able to get equipment, get it up and running, etc., and so that’s the point at which we believe we start to get ahead. I think we’ve pretty consistently talked about end of ’23 and ’24, that we anticipate being beyond many of these supply issues. But, yes, I would say predominantly, they’ve been focused on capacity. Certainly in the years, there were some other industry dynamics, as well.

**Melissa Poole**

David, I’m not sure, maybe your question—the 5%, just to clarify, that is actually the pound number, not a sales number, and maybe we weren’t clear enough in the remarks. So, that 5% growth in production pounds will be well ahead of what the guidance calls for volume, and that’s kind of how we catch up.

**David Palmer**

Got it, and in that capacity, that you’re ramping up with the three new Reese’s plants and the one new Hershey plant, will that be more than the 5% into ’24? Because it’s ramping through year, I’m wondering what’s the impact of capacity increases for 2024, do you think?

**Melissa Poole**

There will be a carryover into ’24 from those, as well as some additional capacity expansions that we have coming online. So, there will be a low-single-digit increase in pounds production available next year, as well, from some carryover and some new initiatives.

**David Palmer**

Thank you very much.

**Operator**

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. I was hoping you could give us an update on what you’re seeing with regard to the retailer pricing environment. It feels like we’re seeing more headlines in the media talking about retailers pushing back specifically against packaged food manufacturers, but we’re continuing to see companies, like yourself, getting strong pricing through in quarterly results. So, I was just hoping you could give us some color on this debate that seems to be emerging. Thanks.

**Michele Buck**

We always partner very closely with our retail customers to try and do what we believe is best to meet consumer demand and also to drive category growth, which is good for both of us. We continue to have very collaborative discussions with our retailers relative to our pricing implementation, which also includes
a lot of discussion about the right plans to have business reinvestment that will enable the support of very strong unit conversion.

Max Gumport

Thanks, and one follow-up on gross margins. I realize it’s early in the year and that taking up guidance is a bit unusual and it speaks to the confidence you have in your outlook, but one question I’m getting is that if we look at your gross margin result in the first quarter and think about what your guidance implies for the remainder of the year, it seems like it would imply some sequential stepdown in gross margin through the year, even after taking into account some seasonality, and so I’m just curious, what type of factors might be going into those assumptions there. Thanks.

Steve Voskuil

I think the biggest factor is it is still early in the year, so have a lot to play out. We’re certainly taking stock of the upside that we saw in the first quarter, but we’re still being cautious, also, on what is to come. The world’s changed a lot over these quarters and still a lot of volatility potentially ahead, and so we’re factoring that in. Then, also, as we go forward, particularly in Q4, the laps get tougher, and so that’s the other factor weighing in the guidance.

Max Gumport

Thanks very much.

Steve Voskuil

Thank you.

Operator

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

Bryan Spillane

Hey, thanks, Operator. Good morning, everybody. I just wanted to ask a question about seasonal. You talked about part of what impacted market share on seasonals in the first quarter was capacity constraints, and I think we’ve talked about more capacity available for seasonals as we move through the year, so can you just kind of talk about that and how that sets up for especially the fall, or the third and fourth quarter, and whether you feel like you’ll be adequately supplied with seasonal product there?

Michele Buck

Yes, sure, absolutely. We believe that with the additional supply that we have ramping up as we go through the year that we will be in good shape to have a very solid plan to meet Halloween and holiday demand. Some of the issues that we encountered during Easter, we should be past in the back half.

Bryan Spillane

Okay, thank you.

Operator
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**

In the press release, you had mentioned just the ability to sustain momentum into 2024, and beyond. Obviously, it’s early, but it just kind of caught my eye that you would call that out. What are you seeing that would drive a reference that’s kind of that far ahead, and how much color can you give on how you’re thinking about 2024 right now?

**Michele Buck**

I mean, we’re not going to give a lot of—we’re not really going to talk about 2024. I mean, at the very high level, I’ll talk a little bit about the consumer piece and Steve can talk about the P&L component, but we feel good about the momentum that we’re seeing on the business. Certainly, in terms of consumers’ engagement with the category, a lot of the underlying consumer behaviors that we’re seeing sustain, which continue to support performance. We’re continuing to see good response to the investments that we’re making in media behind the business, across all parts, really, I mean, CMG, as well as our salty brands, we’re just getting started on some of the investments in salty, and certainly, as we saw in the first quarter, strong momentum in international. So, right now, we don’t see any big signals that suggest to us any big hurdles on the top line.

**Steve Voskuil**

Yes, I would agree. I’d just point to, as Michele said, capacity, having capacity available as we exit the year, to be a little bit more on the (inaudible) from that standpoint, versus some of the limits we’ve had in the last couple of years. The salty aspirations that we have, talked a lot about that at the conference, coming off the back of the ERP and rolling into next year, we’re excited about that, and then the commercial capabilities that we talked more about at the conference, as well, of being able to help drive sustainable growth in the U.S. business, in particular. Those are just some of the reasons, I think, we feel pretty good about the momentum.

**Michael Lavery**

No, that’s helpful color, thank you, and just a follow-up on Dot’s. We got to see the ads at Investor Day, obviously, and just curious if you have a sense of how big a lift you think that can drive, and maybe specifically, at least, what’s factored into your thinking and guidance around that. We’ve already seen, obviously, very strong momentum there, but how much further can it go, and what’s some of how you think about your expectations?

**Michele Buck**
I would say it’s too early. We’ve just started the support on air. We feel very good about all the work that we’ve done in terms of understanding the Dot's consumer and the consumer’s relationship with Dot’s, and so we feel good about the messaging direction, the creative execution, and certainly it scored incredibly well, the responsiveness that we tend to see across our snacking categories with advertising investment. So, more to come, and we’ll share more as we have actual in-market results on that, but we think that will clearly only help us, given that we haven’t been investing in that brand in the past.

**Michael Lavery**

Okay, great. Thanks so much.

**Operator**

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

**Rob Dickerson**

Great, thanks so much. Just two kind of easy questions. The first is just in international, obviously impressed on the volume side, but really don’t see any incremental pricing year-over-year, so I’m just curious—I mean, clearly, it’s intentional—just kind of curious as to why it’s intentional, why we’re not seeing much pricing in international, just kind of given the cost complex and kind of what you’ve been able to push through in the U.S., and then I have a quick follow-up.

**Steve Voskuil**

Sure. We are pursuing a price strategy in international. It’s just more modest, what we’re seeing so far, and it’s offset by some of the other laps that we had in the quarter having some impact on how much of that price is coming through, but we should see more price come through in the next three quarters.

**Rob Dickerson**

Okay, fair enough. Then, just quickly, back to you, Steve, too, buying incremental popcorn facilities, which I get, but clearly not that much cash outlay for those facilities, and if we kind of think about where the top line probably is headed in ’24, and CapEx gets a little bit better next year, margins seem decent, there should be a step-up in free cash flow while the balance sheet is strong. You kind of always reiterate kind of your standard issue capital deployment priorities, but would you say kind of at this point, given all the CapEx that’s being spent on the new facilities and new lines, and then the acquisition of the new popcorn facilities, that kind of, broadly speaking, you feel like you’re probably in a pretty good spot in terms of kind of what you need to grow and, therefore, is there a possibility for, let’s say, other cash deployment, whether it be it around the dividend or buybacks, or what have you? Thanks.

**Steve Voskuil**

Sure. Yes, great question. The short answer is, yes, we do feel good with that additional capacity in place, or coming in place, for the Weaver acquisition, it will be very helpful to support the growth of that business for a time to come. I also like the fact that we’re buying well-maintained, state-of-the-art manufacturing facilities. It’s still much more capital-efficient than building from old cloth (phon). So, it is capital-efficient to pick up assets this way, as well. so, as we look to the future, I feel good about the capacity that we’re going to have installed on both the confection business and the salty business, and that will have an impact on free cash flow as we look to the future.
Rob Dickerson

All right, fair enough. Thank you.

Steve Voskuil

Thank you.

Operator

Our next question comes from the line of Jonathan Feeney with Consumer Edge. Please proceed with your question.

Jonathan Feeney

Thanks very much. Could you comment on the role of not just recent distribution growth, but distribution growth over the last 12 to 18 months in the salty snack business driving that really outsized volume growth? Because, I guess I’m trying to understand how, when you take these products, whether it’s Dot’s most recently, or others, into new markets, is there a necessary decay curve? Like, you have all this great innovation, the Hershey capabilities, and then that kind of seasons and it slows down. What data or insights can you offer to help us understand that, and maybe to think about what a sustainable organic volume growth looks like for salty snacks going forward? Thanks.

Michele Buck

Yes, absolutely. Clearly, distribution is job one when we buy a business like this. I mean, that’s one of our key strengths and we want to fully utilize it. On Dot’s, in particular, there were really opportunities to kind of fill in on distribution. Previously, they really didn’t have a very large Walmart business and they were underdeveloped in the Northeast, so that’s been a big area of focus and that certainly has driven—has been a key driver of the business, but we’ve also seen increases in velocity at the same time, given the very strong repeat potential that we see from consumers behind this product.

Then, as you think about the growth trajectory over time, I would kind of describe it as it basically will evolve in terms of what the drivers are. So, as we fill out the distribution, we start to really employ our category management capability relative to optimizing shelf. As you saw in March, we then start to apply our media capability with advertising behind the brand to really increase awareness and household penetration. Then, beyond that, the other kind of key focus is relative to price pack architecture and other drivers. So, I think where we’ll see the revenue coming from, it will continue, but we will apply the other capabilities we have to really generate that. As we mentioned at Investor Day, we do anticipate seeing growth in that 15% kind of range for the next few years, but a deceleration from the 20-plus percent that we’ve seen more recently.

Jonathan Feeney

Thank you very much.

Steve Voskuil

Thank you.

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

John Baumgartner

Good morning, and thanks for the question.

Steve Voskuil

Good morning.

John Baumgartner

Maybe just building on John’s question, Michele, sticking with the salty snacks distribution, I know the focus here is building availability in mass and grocery, but the ACV opportunity seems pretty significant in c-stores, as well. Are there any considerations, whether it’s dislodging competitors or the routes to market, that you need a DSD model given the velocities, that maybe makes the path to building ACV in c-stores a bit slower for these categories? Just how are you thinking about closing that distribution gap in c-stores over time? Thank you.

Michele Buck

Well, c-store is really a core capability for the Company for our base core CMG business, and, certainly, we realize it’s important in reaching certain specific consumers, and really certain specific occasions when consumers are out and about, so it is a priority for us, we have been focused on that. I think, in SkinnyPop, we are certainly making progress, but there’s more opportunity to go, and so it’ll remain a focus for us going forward. I don’t know if I’d say that there is any key barrier. Certainly, there are folks who have DSD capability more broadly, but we’ve done a good job with our CMG business where we don’t have it building distribution in convenience stores, so we feel very good about that. Then, across our salty snack network, we do have both warehouse and DSD capability, and we’re really working right now to optimize how we best utilize each to maximize the potential of the business.

John Baumgartner

Okay. Then, in terms of the popcorn assets that you’re acquiring, in addition to just the pure growth and volume capacity, is there anything to augment your capabilities or pack size, or anything else, in terms of opportunity there?

Steve Voskuil

Beyond just the capacity, and one of the things it gives us, is the opportunity to optimize the supply chain network more broadly, so if you think to the future, other assets potentially coming in, you can think about some of the strategies we talked about around price pack architecture and being able to make sure we’ve got the right packs and mixes to support the business going forward. So, by having all of that in our hands and in our control just gives us more flexibility and agility to deliver that growth plan.

Michele Buck

Yes, and as I mentioned earlier, we do have—that gives us capacity ahead of demand, so it gives us that trajectory for the next few years.

John Baumgartner
Thanks, Michele. Thanks, Steve.

**Steve Voskuil**

Thank you.

**Operator**

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

**Jason English**

Hey, good morning, folks. Thanks for slotting me in.

**Michele Buck**

Good morning.

**Steve Voskuil**

Good morning.

**Jason English**

A couple quick questions. Colgate just recently did something similar in terms of fast food, in terms of going out and buying some capacity. When that came into the fold, there were a lot of other products that they would make and it created margin distortion near term. Is there anything to be aware of, like, anything similar on that front with the Weaver acquisition?

**Michele Buck**

No. I mean, the bulk of the capacity is ready-to-eat popcorn, so it didn’t really come with a big negative overhang …

**Steve Voskuil**

That’s right.

**Michele Buck**

… other than that there will be excess unused capacity for a while, so that there’s some fixed overhead there.

**Steve Voskuil**

Yes, some fixed overhead and some transition costs, that would be normal, but not a portfolio overhang like you’re referencing, Jason.

**Jason English**
Good to know, thanks for that, and then a bigger picture question. As you mentioned, elasticity has been very low. That's not a Hershey comment, or even a confection comment, it's an industry comment, because we had a lot of cross-price elasticity, everyone moving in the same direction. It sounds like in '24, you're going to kind of break from the pack and push through quite a bit of pricing, at a time where we're not expecting a lot from the industry at large. So, how are you managing those cross-price elasticities, which categories should we be watching, where you tend to see switching between confection, and I'll leave it there?

Steve Voskuil

Yes, I would say, first of all, it's a little early yet to be starting to think about the cross-elasticity for '24, but you're right, we're trying to think ahead in terms of the pricing strategy. We're also watching the commodity space, like we talked about earlier, and some of the upward movements on cocoa and sugar, and so I think that's getting us in a good starting position, but then what happens to the other categories and peers is all yet to be seen, and we'll be able to communicate more on that, obviously, as we turn the corner and get to the back half.

Melissa, anything you want to add?

Melissa Poole

Yes, the one piece I might add is just ours kind of come through a little bit slower and more elongated, because of the timing it takes for us to implement, particularly, with season. So, as we kind of think about '24 pricing, we won't have an outsized price gap versus kind of pre-pandemic levels, versus a lot of our competition. As you see, many of them are posting high-teens or 20% pricing versus us at 10%. So, some of it is just ours is a little bit more spread out. But, we will certainly be watching it very closely, and particularly within snacking, to look at where the share of stomach is going and how those cross-elasticities progress.

Jason English

Yes, that's a good point, Melissa. Thanks a lot. I'll pass it on.

Operator

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

Chris Carey

Hi, good morning, and thanks for the question. I just have a question on confection margins. Very strong in the quarter. Even despite a tough year-ago compare, pricing is clearly building. How should we be thinking about confection margins not just this year, but certainly over time, as it seems like (inaudible) coming through very strongly with pricing and costs are perhaps are easing, and so, again, just your trajectory of confection margins would be helpful. I think you had mentioned some inflation in cocoa and sugar. Just remind us of your duration on those hedges and when we might be seeing that inflation coming through, just so we can kind of assess when the pricing might be needed to offset it. Thanks so much.

Steve Voskuil
Sure. I'll take the last piece first. Just on cocoa and sugar, we don’t get specific on the duration of our hedging programs. Obviously, for those two commodities, we do some hedging, but we don’t share the duration. We do expect to see, potentially, more impact in ’24 than ’23, but we'll see how the markets play out.

On pricing, and just more generally, as we talked about at the Investor Conference, our goal is to always have a mix of volume and price, that's part of the balance in our growth formula, and as part of that, we also want to see margin accretion over time from both sources. Confection margins have been strong, but even in the future, across all levers of pricing, including price pack architecture and mix, and other things, we want to continue to put upward pressure on our margins, because that’s part of our growth formula.

Michele Buck

And we continue to see some of our inputs rise, cocoa and sugar recently, which is one of the reasons that we decided to lean into that more recent pricing action.

Steve Voskuil

That's right.

Chris Carey

Okay, that's it for me. Thanks so much.

Steve Voskuil

Thank you.

Operator

We have reached the end of the question-and-answer session. I'll now turn the call back over to Melissa Poole for closing remarks.

Melissa Poole

Thanks so much for joining us this morning, and all the great questions and the continued interest and investment in our Company. I'll be available today, and the coming weeks, to answer any additional follow-ups you may have. Thanks so much. Have a great day.

Operator

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