## The Hershey Company

## Second Quarter 2023 Question-and-Answer Session

## July 27, 2023

## CORPORATE PARTICIPANTS

**Melissa Poole,** *Vice President, Investor Relations*

**Michele Buck,** *Chairman and Chief Executive Officer*

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

## CONFERENCE CALL PARTICIPANTS

**Andrew Lazar,** *Barclays*

**Ken Goldman***, JPMorgan*

**Max Gumport,** *BNP Paribas*

**Michael Lavery,** *Piper Sandler*

**Pamela Kaufman,** *Morgan Stanley*

**Nick Modi,** *RBC Capital Markets*

**Alexia Howard,** *Bernstein Alliance*

**Matt Smith,** *Stifel Institutional*

**Cody Ross,** *UBS*

**Jason English,** *Goldman Sachs*

**Connor Rattigan,** *Consumer Edge Research*

**Rob Dickerson,** *Jefferies*

**Chris Carey,** *Wells Fargo Securities*

**Bryan Spillane,** *Bank of America Merrill Lynch*

**Robert Moskow,** *TD Cowen*

**David Palmer,** *Evercore ISI*

## PRESENTATION

**Operator**

Greetings. Welcome to The Hershey Company Second Quarter 2023 Question & Answer Session.

At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded.

I'd now like to turn this call over to your host, Ms Melissa Poole, Vice President of Investor Relations for The Hershey Company. Thank you. You may begin.

**Melissa Poole**

Good morning everyone. Thank you for joining us today for The Hershey Company's Second 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 Presentation, 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 we may refer to certain non-GAAP financial measures that we believe will provide useful information for investors. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations to the GAAP results are included in this morning's press release.

Joining me today are Hershey's Chairman and CEO, Michele Buck, and Hershey's Senior Vice President and CFO, Steve Voskuil.

With that, I will turn it over to the Operator for the first question.

**Operator**

Thank you. We will now be conducting a question-and-answer session. (Operator instructions).

Our first questions come from the line of Andrew Lazar with Barclays. Please proceed with your questions.

**Andrew Lazar**

Great. Thanks so much and good morning everybody.

**Michele Buck**

Good morning Andrew.

**Andrew Lazar**

Good morning. I wanted to ask a bit about the pricing versus volume commentary regarding the full-year sales growth outlook. In the comments, it sounds like you expect price to be a bit better in the second half and maybe volumes a bit worse than originally planned, so just two questions on this. First, how we do we think about the balance between the two in the second half, and could volume be down year-over-year in 2H? And then more specifically on volume, is the weaker-than-anticipated volume fully due to just the new pricing actions or are you reflecting a tougher consumer or competitive environment in that outlook, or both? Thanks so much.

**Steve Voskuil**

I'm happy to take that one, Andrew. Your math is right. That's the way we're looking at it. And the price piece really is driven—the volume impact really is driven by the extra price impact as we look at the back half. And as we look at volume in the back half, yes, year-over-year we expect it to be down but it really is price driven. There's probably a very small portion attributable to the Salty misstep in Q2, but the vast majority is just the reaction to price.

**Andrew Lazar**

Great. Thanks so much. I'll pass it on.

**Operator**

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

Bryan, could you check if you're self-muted please?

**Melissa Poole**

All right, let's come back to Bryan.

**Operator**

Our next questions come from the line of Ken Goldman with JPMorgan. Please proceed with your questions.

**Ken Goldman**

Hi. Thanks so much. You've done a great job obviously implementing pricing to offset inflation, but cocoa and sugar are up a lot more. I know you can't talk about pricing that hasn't been announced to the trade yet, but is it reasonable to think that you're maybe considering another list price increase? And at what point do you start to ask how high is too high? How do you think about elasticity and the consumer and environment? Just wanted to get a sense for kind of the puts and takes as you think about how to deal with and manage maybe what continues to be an inflationary environment for you.

**Steve Voskuil**

Sure. You're right. Cocoa and sugar are historically high. I think I saw a news article this morning talking about cocoa being at a 12-year high on the New York Exchange. The good news is we've got experience managing through commodity rushes up and down, and so as we talked about in the past, as we look at dealing with that price is a lever but it's not the only lever. So, we look at driving more productivity, driving efficiency through other parts of the P&L, and in general driving revenue management is just part of our ongoing strategy. So, all the usual levers will be applied, and as I said, it's not the first time we've had to deal with something like this, so we're pretty good at being able to navigate. And you're right, we're not going to get more specific than that at this stage.

**Ken Goldman**

Thank you. Then just on the comment about increased competitive, I guess innovation in confectionary in North America, how incremental is the innovation that you're seeing? Any real surprises in there versus your prior expectations? It's been such a—I don't want to say benign competitive environment because obviously you have some tough players in the market, but is it getting more intense than what you would have expected, I guess, is what I'm going for there.

**Michele Buck**

I would say the innovation is up off of a relatively low base, so it's having an impact based on that. I think many folks have been focused, and certainly we've been focused a lot on execution and meeting demand for the past few years and focused on the core with innovation not playing as big of a role, and I think now we're just seeing competitors in the marketplace start to dial up the innovation more back to historic levels. As we go forward, that's certainly an area that we are going to be focused on as we are continuing to increase capacity at the same time.

**Ken Goldman**

Thank you.

**Operator**

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

**Max Gumport**

Thanks for the question. With regard to the increased chocolate capacity this year and the additional co-manufacturing capacity (inaudible) sweets for next year, is there any way you can help us dimensionalize how sizable those capacity increases are? Just as we try to get a sense for how impactful these additions could be for volumes in the second half and also in 2024 Thank you.

**Steve Voskuil**

I think we've said in the past that if you took a look at the capacity that we have coming online this year that's already gone into place and then what's coming in the back half and look kind of year-over-year, you're somewhere in the 5% range of incremental capacity across chocolate and sweets.

**Max Gumport**

Great. Thanks very much.

**Steve Voskuil**

You bet.

**Operator**

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

**Michael Lavery**

Thank you. Good morning.

**Michele Buck**

Good morning.

**Steve Voskuil**

Good morning.

**Michael Lavery**

You've got the integration in salty snacks and the transition to SAP that you've been talking about. Those never seem to be totally smooth or easy. You've mentioned there's some hiccups that you've seen, but can you maybe just give a little sense of what those look like in a little more detail, specifically with an eye on just having—as of what's to come? What have you learned and how confident are you that the rest of the year can avoid some of those hiccups or just be even smoother still?

**Michele Buck**

I would say overall certainly one of our key focuses as we planned for this year was that, at the enterprise level really focusing on the stellar execution. We planned the business in a way to assume that we would be trying to frontload performance, knowing that there are always hiccups in the execution and so in Q4 we do expect to see volumes be down, and we put that in our plans. The teams are all over it. It is a focused effort not just within IT but across every functional area on the Salty business. And so far we've been doing pretty well on Salty with household penetration growing repeat frequency, strong sales. We did have the promotional shift into Q3 and we feel good about being able to execute that, but we feel like we're well geared up to be able to execute that.

That said, we certainly do believe that there will be volatility in the back half of the year with the ups and downs of S/4.

**Michael Lavery**

Okay. That's helpful. Just back to pricing, you've got delays in some of the timing between the announcement and implementation and then seasons, of course, have a staggered effect. With just some of the maybe layers to it, can you give a sense of just what you've announced already or put in place already as an impact on 2024? It looks like at least a low single-digit maybe—my math estimates close to about 3 points you might already have in-hand. Is that about right? What are some of the moving parts, just so we have a little bit further look ahead of what's already put in place?

**Michele Buck**

We have high single digits in the second half of this year, and as we look to '24, low single-digit pricing.

**Michael Lavery**

Just to clarify, that's without any other—that would be before there's anything else that might still be to come, right?

**Michele Buck**

That's what we've announced.

**Michael Lavery**

Perfect. Thanks so much.

**Operator**

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

**Pamela Kaufman**

Good morning.

**Steve Voskuil**

Good morning.

**Michele Buck**

Good morning.

**Pamela Kaufman**

Your advertising spend was up 15% this quarter, which is an acceleration from Q1. Given the better-than-expected performance in gross margins for the year and what you're seeing in the competitive and demand environment, are there any changes to your plans for marketing spend for this year relative to before?

**Steve Voskuil**

No fundamental changes. We had expected this year to be a year to invest in brands, and again, as we have capacity coming online and leaning into seasons, especially as we get to the back half, a significant increase in brand investment was planned and we're executing to that plan.

**Michele Buck**

And also as mentioned, we were working to really frontload more of our Salty planning because of S/4, so our plans accounted for that as well.

**Pamela Kaufman**

Then just in the prepared remarks there were comments about some private label launches in your salty snacks category. You're generally in categories that face very little private label competition, but considering the launches that you alluded to, just curious to hear how you're thinking about managing private label competition in your categories and how you're addressing it.

**Michele Buck**

Certainly there is a bit more private label in Salty than in CMG, but we have considered—we continue to see that while private label has ticked up a bit, our brands have continued to remain quite strong and do incredibly well. As we look at private label, even within the confection category, while there has been increased activity there it's remained a very small part of the category, less than 3%, and the entries we've seen in the marketplace this year are still relatively small.

We don't take our leadership for granted. We certainly continue to invest in our brands to make sure that our propositions are strong, but we feel very well about how we're competing right now in the marketplace on that.

**Pamela Kaufman**

Thank you.

**Operator**

Thank you. Our next questions come from the line of Nick Modi with RBC Capital Markets. Please proceed with your questions.

**Nick Modi**

Thank you. Good morning everyone.

**Steve Voskuil**

Hey Nick.

**Michele Buck**

Good morning.

**Nick Modi**

Good morning. I was hoping you could just kind of address the Halloween season as it relates to some of your competitors are still struggling with supply chain and have cut back their orders. I'm just curious: how can you take advantage of this? Do you have visibility at this point in terms of maybe securing some of that missed opportunity by some of your competitors? Just wanted to get some clarity on how you think about that as it relates to the third quarter.

**Michele Buck**

Yes. So, we are expecting a very strong Halloween. We know that customers are planning big displays and we are certainly participating in that, and as well have strong marketing support to consumers planned as well. We have certainly taken an approach of leaning into Halloween. We feel good that there will be plenty of candy out there, so feeling good about that.

As we look at overall in the back half as it relates to market share, we think that there will be a stable approach overall but some pressure on every day despite some of our strengths around the seasons.

**Nick Modi**

Great. Then if I could just clarify, you know, in terms of the execution issues in salty snacks, what exactly happened? You talked about the systems changeover, but can you just provide the details on exactly what the problem was?

**Michele Buck**

Yes. I mean, I'd say two key things. One is we had some promotions that we had planned to occur in Q2 that shifted to Q3, and then we have had some just basic issues as we've been bringing together all of those businesses that you would expect during a transition like that around sales and commercial and supply chain execution. So things just weren't as connected as they needed to be. We feel very good that the team is on it and focused on it and execution is something that we tend to do very well, so we have a lot of confidence in our ability to focus and get that back around.

That said of course, the back half of the year as we've mentioned is going to have a lot of volatility that's really tied to S/4 as we build inventory and then work through the implementation and anticipate that we'll have lighter sales in the fourth quarter as a result of that. But we have confidence in our ability to fix the execution.

**Nick Modi**

Great. Thank you so much. I'll pass it on.

**Operator**

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

**Alexia Howard**

Good morning everyone.

**Michele Buck**

Good morning.

**Alexia Howard**

Can I ask first of all about market share trends in U.S. chocolate? It sounds as though capacity constraints and other issues have caused some of those declines. Do you have a view as to when those market share trends should start to improve and turn positive again?

**Michele Buck**

We expect to continue to see pressure in the back half of the year. We believe that we'll start to see some improvement, but there are a couple of things that are really impacting share. One certainly is around category mix with refreshment and sweets being stronger than we had anticipated. Chocolate should improve and we are focused on increasing our level of innovation to be even more competitive, and we'll be in a better position to do that as we continue to have more capacity come online. (Cross-talking). Go ahead.

**Alexia Howard**

Sorry. I was going to say moving on to salty snacks, you talked about a double-digit decline I think in the fourth quarter because of the transformation. Is that choppiness expected to persist into 2024?

**Steve Voskuil**

No. Not at this stage. Really, it’s just Q3 we’ll be getting ready and building inventory for the switchover to—four will be the switchover and the recovery. So by the time we get to the first quarter we’d expect to be back on a—back or very close to a regular glide path.

**Michele Buck**

Yes.

**Alexia Howard**

Great. Thank you very much. I’ll pass it on.

**Steve Voskuil**

You bet.

**Operator**

Thank you. Our next questions comes from the line of Matt Smith with Stifel. Please proceed with your questions.

**Matt Smith**

Hi. Good morning.

**Michele Buck**

Good morning.

**Matt Smith**

Steve, I wanted to dig in a little bit on gross margin. You had a really solid first half with margin expansion up near 100 basis points, and you again increased the margin expectations for the year. Could you talk about the drivers of margin expansion relative to your initial expectations and what’s weighing on the expansion in the second half relative to the performance in the first half? Is that tougher comparisons in relation to the balance of pricing and inflation? Or are there other factors at play like increased promotion?

**Steve Voskuil**

Sure. We’re pleased with the gross margin performance through the first half. We’ve had a few things I think that have broken our way – seen less inflation in things like packaging and logistics and even some material costs. Our productivity progress has been strong. I think we feel really good about where we’re at the mid-year mark on productivity. And of course we've had pricing drop through. So, all of those have worked in our favor and will continue to some degree as we go to the back half.

As you look at the back half, taking the volume impact, we're going to have some more fixed cost absorption impact that will be a little bit of a weight. And again, we've got hedging against commodities but still from a year-over-year and beginning of the year/end of year perspective we still have a bit more cost for some of the inflationary commodities, cocoa and sugar. Smaller weights, and again smoothed out by hedging but still some impact.

Those would probably be the two biggest drags as we look to the back half, but again overall still feel confident taking our guidance up and the team is doing a nice job managing the cost side.

**Matt Smith**

Thank you for that. Just as a follow-up, if I understood what you were saying about the second half there should be a nice gross margin benefit in the third quarter as you build inventory with retailers ahead of the cutover in salty snacks. Is that right?

**Steve Voskuil**

Yes. Yes, we'll get some benefit. Again, Salty is not the biggest business, but we will get some absorption benefit as we build inventory in Salty, yes.

**Matt Smith**

Okay. Thank you for that. I'll pass it on.

**Steve Voskuil**

Thank you.

**Operator**

Thank you. Our next questions come from the line of Cody Ross with UBS. Please proceed with your questions.

**Cody Ross**

Good morning. Thank you for taking our questions. A couple of housekeeping ones and then a longer-term one in nature.

First one, I think you spoke about inventory headwinds in the quarter. I they were lapping the inventory replenishment last year and the pull-forward of sales into 1Q from 2Q. Is that correct and if so, can you quantify each one for us?

**Steve Voskuil**

It is correct. In terms of breaking out the pieces there's about 300 basis points we attribute to the lap and about 150 basis point shift relative to Q1, order of magnitude.

**Cody Ross**

Great. Thank you. Other housekeeping question, just as far as the fourth Q, I think you guys said that the sales should be down double digits in the salty business due to the ERP implementation. Can you just quantify that for us or give us an expectation for magnitude? Then just one last one.

**Steve Voskuil**

In terms of dollars or…

**Cody Ross**

Yes, the dollars that you're expecting from the implementation.

**Michele Buck**

It's a double-digit decline, Cody. We're not going to go any more specific than that.

**Cody Ross**

Understood. Then last question, just on the competitive environment. There's been a lot of news in the headlines lately about private label and other branded competitors becoming more competitive. What are you seeing in that competitive environment. I know you said you've seen branded players pick up more innovation. Besides that, are you seeing any step-up in promotions, and what's kind of your expectation going forward? Thank you.

**Michele Buck**

I would say the categories that we are in have always been very competitive, but the good thing is we have rational competitors. And what we're seeing overall I'd say is pretty consistent with what we've seen historically. We have seen some higher levels of innovation as supply chains have gotten stronger and people have been able to support innovation. We have seen some increases in private label. I think with the economic environment in both Confection and in Salty, but frankly, the results of those entries have been somewhat mixed and certainly our brands have held up really well.

We continue to focus on driving sustainable, profitable growth.

As it relates to Confection and promotional activity, display has always been important for that impulse-driven category and so we didn't see as much of the change in promotion as perhaps some other categories have seen. That's been much more stable for us and we anticipate will continue to going forward.

So, we'll continue to invest, you know, robustly to drive our brands with innovation, marketing support, what we think is the right level of promotion.

**Cody Ross**

Great. Thank you very much. I'll pass it on.

**Operator**

Thank you. Our next questions come from the line of Jason English with Goldman Sachs. Please proceed with your questions.

**Jason English**

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

**Michele Buck**

Good morning.

**Jason English**

A couple of questions. First on salty snacks, promotion shift, it seems odd. Usually promotions are locked in well in advance with retailers, so was this an issue of you actually not having a promotion you were planning for? Like a misalignment with your sales and planning functions, or did a retailer actually cancel activity on you?

**Steve Voskuil**

Yes.

**Michele Buck**

Yes. Retailers did not cancel activity on us, but it was really our choice to move a promotion. So that piece is that.

Then relative to our broader execution issues, we had some temporary out-of-stock. We go-to-market differently with Dots than we do with SkinnyPop and the team quickly adjusted, and we've seen our service levels improve. So we don't expect to see that kind of impact in the second half.

**Jason English**

Okay. So you canceled promotional activity on your retailer. Is that because of supply constraints? What drove that decision?

**Michele Buck**

No. We really shifted to invest in a promotion in the third quarter that we thought made a lot of sense in advance of S/4. It was a big opportunity for us.

**Jason English**

Okay. Switching gears, kind of coming back to Mr. Goldman's line of questioning earlier and a couple of other lines of questioning on competitive activity, your release has a tremendous amount of focus on market share rather than driving category growth. We've seen the category actually weaken quite a bit in recent data, so a two-part question. First, what do you attribute the accelerating volume declines in chocolate confection to be driven by? And second, are you (inaudible) your organization on share, and assuming you are based on the heavy emphasis in the release and prepared comments, how do you manage the risk of us getting back to where we were five, six, seven years ago where it was sort of always duking it out promoting away value in the category rather than what has been a much more, I would say, constructive competitive environment seen over the last couple of years?

**Michele Buck**

Well, as we look at the category, certainly we've had significant pricing in the category. Twenty percent price and over time we should see some moderation and volume decline should moderate as well. So certainly price has played a factor. I would say we are always focused on driving the category as well as market share because being the category leader we know if we drive the category we stand to have some of the greatest benefit. So we certainly don't approach this as duking it out but rather how do we continue to connect with consumers and partner with our retail customers to maximize what's going to be best to drive the overall business and category.

**Steve Voskuil**

And we've got a lot more tools and sophistication today to look at the ROIs for how we're deploying things like promotion and there's no intent to get into an arms race of bad returning investments like that. We want to win with innovation, which we talked about in the remarks, not just spending.

**Melissa Poole**

Yes, and I think Jason, if it helps a little too, we had in the past call it two months or so, multiple price increases, about three different price increases hitting retail at the same time which is kind of what drove that 20% Michele mentioned, as kind of something that we were at the tail end of lapping some and some new ones were going in, so we would expect that pricing number to come down and with that the volume declines to moderate as well. So in the next couple of months we would expect that normalize a bit.

**Jason English**

Okay. I'm going to cheat with one quick follow-up related to that question. But to my point on how are you incenting the organization, and your sales force in particular, is market share a component to the bonus, or is it just deliver the revenue?

**Steve Voskuil**

Today market share is not a component of most bonuses; it's about delivering the revenue. But we have other metrics around quality of delivery and how it's delivered and where and…

**Michele Buck**

Sales activity based margins that enable a balance between sales and profitable sales.

**Steve Voskuil**

That's right.

**Jason English**

Got it. That is helpful. Thank you very much. I'll pass it on.

**Steve Voskuil**

You bet.

**Operator**

Thank you. Our next questions come from the line of Connor Rattigan with Consumer Edge Research. Please proceed with your questions.

**Connor Rattigan**

Good morning. Thanks for the question. I guess as we think about the pricing environment and increasing elasticity going forward, should we view the newfound capacity as just meeting existing underlying demand, or is there maybe an opportunity to allocate some of that newfound capacity to take advantage of some strategic revenue management opportunities such as package resizing or bar weights to drive net price realization going forward?

**Michele Buck**

We've been very focused on strategic revenue management and pack price architecture on both Confection and the Salty categories. I think a few years ago we talked about evolving our pricing approach from just list pricing to how we look more holistically at strategic pricing, and in these categories in particular it's a big opportunity. We continue to focus there in Confection, and on Salty it's certainly something that as we acquired these businesses was a real underdeveloped area of opportunity.

**Connor Rattigan**

Great. Thank you. I'll pass it on.

**Operator**

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

**Rob Dickerson**

Great. Thanks so much. Just have two questions. I just want to circle back to some of the comments you made, Steve, just on cocoa and sugar inflation that Ken asked. It sounds like there clearly are other offsets beside pricing that you can enact to kind of help alleviate or let's say soften some of that pressure over the next two years giving your hedging schedule. But clearly cocoa has also inflated fairly materially over the past few months. I'm just curious, like when I try to combine the comments from the offsets but then the comments or what you put in the prepared remarks about potential more promotional activity next year, and all the pricing you've taken, do you feel like you're kind of reaching this point such that maybe market share is a little softer? Maybe that's driven by capacity. Capacity is coming online and maybe you need to promote but also maybe you kind of have kind of hit certain price points that you have to be very careful with at this point on the everyday side of the business? Maybe you don't really want to take more pricing, but if you hadn't you would.

I'm just trying to get a sense as to why you wouldn't want to basically take a little bit more given what the input cost complex is. Thanks.

**Steve Voskuil**

Yes. Those are all the kind of considerations that we look at when we think about 2024 and beyond. And again, we look at the whole P&L, we look at market share, we look at what the competition is doing, and clearly we look at commodities and where we think they're headed. I don't want to get more specific on the construct of the '24 plan, but those are the kind of things we'll consider.

Again, we've navigated this before. We've got a lot of levers at our disposal. Pricing and revenue is just one of those levers. And it will be interesting to see what happens in the cocoa/sugar market. I do think in those cases there's still a lot of speculation. And again, our hedging strategy gives us an element of smoothing and protection to a degree, but we'll be watching to see how these markets hold up because they are at pretty high levels atypically and it's not driven by fundamentals to a large degree.

**Rob Dickerson**

Okay. Fair enough. Then just quickly, the comment on Halloween should be very strong. Michele you said there will be plenty of candy. It sounds like Halloween seasonal sales expected to be up double-digit. So I'm just curious why do you think Halloween will be so strong this year, number one. And then number two, I think last year you did have some benefit from early shipments, so I just want to make sure there aren't earlier shipments coming. That's it. Thanks so much.

**Michele Buck**

Sure. We get a lot of visibility to the seasons because we plan with customers in advance relative to needing to build inventory for the season, so we have a lot of good visibility in terms of what is being bought and we have very strong programs to drive sell-through, so that gives us a lot of confidence.

We know that during difficult economic times consumers are particularly interested in enjoying kind of the simple things in life like these seasons, like Halloween and so that's another kind of tailwind of focus relative to our conviction in why I think we and our customer partners really want to lean into Halloween.

**Rob Dickerson**

Okay. Fair enough. Then on the shipment side, it doesn't sound like there's any delta there relative to the year ago.

**Steve Voskuil**

No.

**Michele Buck**

No.

**Rob Dickerson**

All right, super. Thank you.

**Steve Voskuil**

You bet.

**Operator**

Thank you. Our next questions come from the line of Chris Carey with Wells Fargo Securities. Please proceed with your questions.

**Chris Carey**

Hi. Good morning everyone.

**Steve Voskuil**

Good morning.

**Michele Buck**

Good morning.

**Chris Carey**

Just a question, kind of clarification around salty. We've seen some deceleration in consumption, volume in recent standard data. I'm just trying to understand, and apologies if this has kind of been addressed in some form, but just to clarify. Was any of that because of lack of supply because of a shift in promotional programs? Said another way, as supply ramps in Q3 it sounds like there's some shift in promotional programs. Would you expect the consumption trend—I realize what you're saying about your reported results in Q3 and Q4, but would you expect consumption trends to pick up? Or is what we're seeing perhaps more indicative of underlying demand? I just want to maybe understand how you think about the balance of those things.

**Michele Buck**

Yes. Promotional declines did drive that deceleration, and yes, we do expect that to pick up in Q3 going forward.

**Chris Carey**

Okay. That's simple enough. Thanks so much.

**Michele Buck**

Thank you.

**Operator**

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

**Bryan Spillane**

Thanks Operator. Hey, good morning guys.

**Steve Voskuil**

Good morning.

**Michele Buck**

Good morning.

**Bryan Spillane**

Two quick ones from me. One just a follow-up on elasticity and another one on capital allocation. First, on elasticity, Michele, is there any pronounced differences across channels? I guess small format/immediate consumption versus large box? Just anything there to call out in terms of where or if there's any differences in terms of elasticity across those channels or consumption occasions?

**Michele Buck**

I don't think that we've seen anything significant across channels, no.

**Bryan Spillane**

Okay. Then Steve, just on capital allocation, noticed the dividend increase of 15%. That obviously makes the dividend more competitive I guess with interest rates going up, but just can you remind us, you know, again as we kind of think over the next couple of years and as capital spending normalizes—and again, assuming that there's not some major strategic event that would affect the balance sheet—just how you're thinking about capital allocation and returning cash to shareholders going forward. Again, would it be more dividends? Would share repurchases become a more pronounced piece? Just kind of how you're thinking about that as we think about it over the next couple of years would be helpful. Thanks.

**Steve Voskuil**

Sure. Yes, I'd be happy to. No fundamental changes in our capital allocation philosophy that we talked about back at the investor conference.

It is a great dividend increase. When you look at that and you look at our target for payout ratio and so on, we're still, even with this increase, a little bit behind where we like to be and where we've been historically, so—and that just reflects the great earnings progress over the last few years. But pleased with the 15% increase.

And you're right, as we look forward as capital spending moderates off some of the really high spending we've had here recently, we're going to look for other ways to be thoughtful with the capital and returning cash to shareholders through repurchases, for example, is our stopgap when we don't have better returning alternatives, and so that's not going to change.

**Bryan Spillane**

Okay. Thank you.

**Steve Voskuil**

You bet.

**Operator**

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

**Robert Moskow**

Hey, thank you for the question. Similar to Bryan about elasticity, but slightly different. I want to know if you've seen any differences in elasticity within the portfolio, like multi-serve bags versus single serve. Especially heading into Halloween, some of those bags can cost $20, $25 at retail. Have you seen any observations in consumer behavior about just the absolute price points affecting demand?

**Michele Buck**

Nothing material relative to the pack size piece. What we have tended to see over time is seasons tend to perform better, to be less elastic. And I think that's just the nature of people are going to participate, so that's the biggest difference that we see.

**Robert Moskow**

Okay. So no real change in, like single serve demand affected by traffic or just the absolute price point of the bars getting up there?

**Michele Buck**

No.

**Robert Moskow**

Okay. All right, thank you.

**Michele Buck**

We have not seen that.

**Operator**

Thank you. Our next questions come from the line of David Palmer with Evercore ISI. Please proceed with your questions.

**David Palmer**

Hi. Thanks. At your Analyst Day you provided guidance of North America Confection organic sales in the low single digits including flattish volume. Could you remind us again of the drivers just to sustain that sales growth with low single-digit pricing and flat volume as perhaps competition returns in a more fulsome manner? Thanks so much.

**Steve Voskuil**

I would say nothing fundamental changing in that algorithm and the way we think about the sources of growth for U.S. Confection or the rest of the business. We always expect it to be a competitive category over time, and so we're looking at it the same way. There's nothing that's happening this quarter or even for the balance of this year that we think fundamentally changes any of that.

**David Palmer**

Thanks very much.

**Operator**

Thank you. I'm showing no further questions in the queue at this time. I'd like to hand the call back over to Ms Melissa Poole for any closing comments.

**Melissa Poole**

Thank you so much for joining us this morning. I know it was a particularly busy morning of earnings, so thanks for all of the great questions and look forward to catching up with you all later today for any outstanding ones you may have. Have a great day everyone.

**Operator**

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.