The Hershey Company

First Quarter 2024 Earnings Conference Call
Q&A Session

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CORPORATE PARTICIPANTS

Melissa Poole, *Vice President, Investor Relations*

Michele Buck, *Chairman and Chief Executive Officer*

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

CONFERENCE CALL PARTICIPANTS

Andrew Lazar, *Barclays*

Alexia Howard, *Bernstein Alliance*

Ken Goldman*, JPMorgan*

Max Gumport, *BNP Paribas*

Nik Modi, *RBC Capital Markets*

Michael Lavery, *Piper Sandler*

Bryan Spillane, *Bank of America*

Robert Moskow, *TD Cowen*

David Palmer, *Evercore ISI*

Chris Carey, *Wells Fargo Securities*

Tom Palmer, *Citi*

Rob Dickerson, *Jefferies*

Jim Salera, *Stephens Inc.*

John Baumgartner, *Mizuho Securities*

Alejandro Zamacona, *HSBC*

PRESENTATION

Operator

Greetings, and welcome to The Hershey Company First Quarter 2024 Question and Answer Session.

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

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

Melissa Poole

Good morning, everyone. Thank you for joining us today for The Hershey Company's First Quarter 2024 Earnings Q&A Session.

I hope everyone has had the chance to read our press release and listen to our prerecorded Management remarks, both of which are available on our website. In addition, we have posted a transcript of the pre-recorded remarks. At the conclusion of today's live Q&A session, we will also post a transcript and audio replay of this call.

Please note that during today's Q&A session we may make forward-looking statements that are subject to various risks and uncertainties. These statements include expectations and assumptions regarding the Company's future operations and financial performance. Actual results could differ materially from those projected. The Company undertakes no obligation to update these statements based on subsequent events. A detailed listing of such risks and uncertainties can be found in today's press release and the Company's SEC filings.

Finally, please note that we may refer to certain non-GAAP financial measures that we believe will provide useful information for investors. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations to the GAAP results are included in this morning's press release.

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

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

Operator

Thank you. (Operator instructions).

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

Andrew Lazar

Great. Thanks so much. Good morning everybody.

Michele Buck

Good morning, Andrew.

Steve Voskuil

Good morning.

Andrew Lazar

Michele, I guess excluding the inventory build underlying organic sales in North America Confectionery rose 2%. I think we and the Street had modeled it broadly more flattish. Recently, market share trends in chocolate have inflected following a year of weakness. I guess my question is, am I overplaying this? Or maybe are you two starting to see sort of building underlying momentum in the core Confectionery segment outside of all the ERP inventory noise, and would you expect to see a sequential improvement in volume trends in 2Q?

Michele Buck

Yes. So Andrew, we are definitely very pleased with our Q1 top line performance. I would say that overall it was in line with our expectations, however, our market share did exceed expectations. Our strength was really driven by a very strong performance in seasons, both overall and takeaway, as well as market share, and also the strength that we had in innovation with Reese's Caramel, which not only did well with consumers, was the best innovation in the category, and also was able to drive strong merchandising for us, particularly as we launched around Super Bowl.

So we're feeling good about what we're seeing and as we look to the rest of the year, we do expect some improvement in trends as we enter throughout the year and proceed towards the end of the year.

Andrew Lazar

Okay. Then you mentioned in the prepared remarks improved display activity in the first half of this year versus the second half of last year. I know there's a lot that goes into that, but can we also take this to mean maybe that some of the headwind you faced last year from a major customer going through what seems like yet another sort of clean store effort maybe has started to realize a bit that display and sort of multiple points of interruption for snacks improved sales? Or is that too strong a way to characterize it? Thanks so much.

Michele Buck

I would say we are partnering very strongly with that retailer as we always do, and certainly I think we both recognize some of those opportunities that we can go after.

As we look at the performance year-to-date, a lot of the strength that we had seen versus second half of last year in merch was really across other customers versus that customer with seasons innovation, and then really tying some of our media to events like the Super Bowl or March Madness driving merch. So we do anticipate that we will see some of the strength from merch with that retailer in the second half of the year.

Andrew Lazar

Thank you.

Michele Buck

Thank you.

Operator

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

Alexia Howard

Good morning everyone.

Michele Buck

Good morning.

Steve Voskuil

Good morning.

Alexia Howard

Okay, two questions. First of all, I know you're not going to comment on what you're doing with your cocoa forwards contracting and hedging strategy, but could you give us a little bit more detail on the levers and options you have regarding sourcing for 2025? Whether it's sourcing from other regions, obviously, timing of contracts, the amount of flexibility you can build into the system. Just some ideas of the types of levers that you can pull, given the amount of volatility that's out there in the cocoa markets today.

Steve Voskuil

Sure. Yes, I'm happy to take that one. Multiple ways to deal with the volatility. Obviously, the hedging program and the financial side is one way to deal and then the supply chain side, making sure we've got diverse sourcing. We've done a good job of that over the years of really trying to diversify that supply chain footprint.

No doubt, looking back at the last few years, we'll continue to move that diversification forward, but that does give us some flexibility on sourcing. And of course, we have recipes and taste profiles and things like that, that guide those choices. But within that, we've got quite a bit of flexibility on the sourcing side.

Alexia Howard

Great. Then are you able to comment on what you're seeing in terms of the state of the American consumer? We've been hearing a lot about this recently with lower-income consumers becoming more vulnerable. Any comments you can make on how much the SNAP spending cutbacks last year hit you? I don't know whether you're able to quantify that, but just comments on where you're seeing the American consumer headed at the moment. Thank you and I'll pass it on.

Michele Buck

Yes, absolutely. We do know that we saw impact from the SNAP reductions in the business in the back part of last year. We are beginning to see some stabilization as we start to lap some of those reductions. Consistent with our expectations as we built our plan, we anticipated that, that would occur. However, we do continue to see value-seeking behavior from consumers. So that still hasn't changed; I'd say it's improving a bit, but it's still there.

Alexia Howard

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

Operator

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

Ken Goldman

Hi. Than you. I just wanted to follow up to your answer to Andrew's question about North America Confectionery. I think you said that you were—that in general it came in—underlying, right, excluding the ship ahead—kind of in line with your expectations, but that your market share exceeded your expectations. I guess, just mathematically, the category maybe didn't do quite as well as you had hoped. So A, I'm just trying to make sure I'm hearing that correctly, and B, if so, what do you attribute that to? Again, we all know there's been some elasticity and you mentioned the lower end struggling a little bit. Is it really just tied to that? Or are there other factors maybe we should consider?

Michele Buck

Yes. I mean I'd say some of that is always tied to each key competitor and what their programming is like versus prior year. So our largest competitor, Mars, was a little bit soft for the quarter with share down and I think a lot of that was driven by their innovation, the lap versus prior year with some of that innovation not sustaining, and those things do impact the category. That looked to be one of the biggest drivers.

Ken Goldman

Thank you for that. Then just pivoting a little bit to Salty, obviously, your sales trends were much improved. I think it's fair to say that there's still maybe some opportunities in margin ahead. I just wanted to get a sense of the level of how content you are with the A&P investment in that business? Do you expect to have to invest any more in price? Just, I guess, how confident are you in kind of the building blocks to really get that business a little more stable to a position where you can grow it and expand margins at the same time?

Michele Buck

Yes. Overall, Salty was on track with our expectations as well. We had very strong Dot's performance. Then, as expected, while SkinnyPop improved, we knew that the majority of that improvement would not occur until we get to lapping the Q2 period and going forward. SkinnyPop does remain pressured along with some of the rest of the ready-to-eat popcorn category and we think that, that will shift once we get past that lap.

As we move through the year, we do have strong media and trade investments behind both of the brands. We also have flavor and pack innovation that will help us both grow and also drive share gains in the second half of the year.

From a profitability perspective, Q1 Salty profit was the weakest for the year, of where the business will be for the year so you can expect that to get better going forward. Also the bigger increase in our advertising really starts to happen in Q2 and beyond working forward.

Ken Goldman

Very helpful. Thank you.

Operator

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

Max Gumport

Hey, thanks for the questions. I realize you're not getting into 2025 pricing conversations on this call or commenting on cocoa inflation. Just curious if you could talk about some of the other factors that go into that framework, though. You talked a little bit about market share trends, but also what you're seeing with category volumes, health of the consumer overall, the competitive environment, cross-category elasticity concerns, just as we try to think through what you're seeing. Thanks so much.

Steve Voskuil

Yes. On 2025, and I think that's where you're pointing the question, I would just say we're in the midst of building the '25 plan. So, obviously, yes, we're not going to talk about cocoa.

As we look to the plan, there are a lot of levers we'll be looking at. Pricing is a lever we'll look at, other supply chain savings. As we talked about in our last call, we've got some transformation savings that will be building in the years to come, including 2025. As we get further into the year, we'll be able to talk more about what we expect for 2025, including category health and what we think about the consumer and so forth.

Max Gumport

Okay. Then turning to the comments on gross margin for 2Q '24 any help you can give us in terms of the cost absorption that might reverse out in 2Q after a strong 1Q, given the inventory dynamics associated with the ERP cutover? I'll leave it there. Thank you.

Steven Voskuil

Sure. Yes. We expect to see that fixed cost leverage that we benefited from in the first quarter effectively fully reverse out in the second quarter. So order of magnitude, we had $20 million to $25 million of benefit on fixed cost absorption, and then also a little bit of mix just based on the type of inventory that was built in the first quarter. Both of those components should reverse out in full in the second quarter.

Max Gumport

Great. Thank you.

Steve Voskuil

You bet.

Operator

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

Nik Modi

Thank you. Good morning everyone.

Steve Voskuil

Hey.

Nik Modi

Good morning. Just two questions. Michele, I was wondering if you could just comment on kind of what you're seeing from a channel perspective, primarily C-stores, because some of the feedback we're getting is the traffic is really starting to come under some pressure, so would love your thoughts there.

Then just kind of more broadly, one of the things that obviously we've talked about in the past has been this kind of cross-elasticity between what's going on in your business versus other potential alternatives for the consumer, whether it be snack bars or what have you. I'm just curious, as you kind of think about the year, are you framing your promotional plans and your price gaps more from that lens, or are you still just more holistically or focused more specifically on just the categories in which you're competing? Thanks.

Michele Buck

Yes. As it relates to C-store, our business in C-store has been holding up pretty well for us. We really haven't seen a big change in trend, I would say, that we are focused on there.

As we look to price gaps, we always look at price gaps and price points, absolute price points, both within the category as well as across the snacking category. That is really the standard way that we view our price elasticity, and we continue to evaluate it that way.

Nik Modi

Great. Thanks, I'll pass it on.

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

I just wanted to come back to the comments on 2Q. You called out the high single-digit declines you expect from the inventory reversing, but last quarter you said how you expect double-digit EPS declines in the first half. I don't—unless I missed it—believe you reiterated that, but would that still apply as well?

Steve Voskuil

It does, yes.

Michael Lavery

Okay. Great. Thanks. Then just as you think about any of the moving parts with some cocoa volatility or cost, maybe uncertainty at least, you've also reiterated how you just think for the long term and want to approach the business that way. Would it be right to assume that, that does some amount of protection for A&C? How do you think about managing that as one of the variables and is it something that is in play or is protected? What's kind of the approach there as far as the marketing spend?

Michele Buck

Yes. I mean, I think strategically, we want to always continue to invest in our brands. We believe that's a key part of the model and we know that if you break that investment, it can take some time to rebuild to get to kind of your threshold levels again. That said, every year when we build a plan, we reevaluate the return on all of those pieces of spending. We have to have the right news. We have to have the right increases in effectiveness and efficiency to set the right level.

So it's not to say that we are set at a specific budget or percent of net sales. Every year we do adjust that based on what we're seeing in the returns, where the opportunities are, what kind of news we might have that we want to support, etc.

Michael Lavery

Okay, great. Thanks so much..

Operator

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

Bryan Spillane

Thanks, Operator. Good morning everyone. I guess, Michele, can you give us some perspective—if you can, I guess—if you look at seasons in the first quarter and maybe just how consumers purchased around Easter and what the display and merchandising was like, does it give you any insight into Halloween maybe being any different this year or maybe needing a different approach for Halloween?

I guess I say that in the context, if we think about last year with the everyday business being so under pressure, right? It put a lot more pressure on seasons and Halloween and kind of the balance of the year to sort of drive the business. It seems like that everyday is, at least as a category or the small format stores are under a lot of pressure. I'm just trying to get an understanding if we have a lot of dependency on Halloween as we go through the end of the year and whether or not there's any sort of difference in the way consumers are shopping around holidays.

Michele Buck

Yes, absolutely. If I start with the beginning of the year, Valentine's, the category was strong and we performed very well there from a share perspective. The Easter category declined, but it was a shorter season, which always makes it more difficult, but sell-through was very good. And again, we gained share in that season as well.

As we look at the second half of the year, we do feel like those trends are positive for the second half, but obviously, we had some very strong seasonal performance in '23. We think second half will grow, but we think the growth will moderate and perhaps be more in line with our overall growth as a company versus kind of super-sized in the back half.

Bryan Spillane

Okay, great. Thanks Michele.

Operator

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

Robert Moskow

Hi. Thanks you. Michele, I thought I remembered last quarter you saying that once you got past the ERP conversion completely and after second quarter, that's when you would start to evaluate pricing actions to cover higher costs. Did I get that right, and is that still your strategy?

Then lastly, I was wondering how do you know—how did you go about estimating how much extra inventory the customers pulled forward? You're expecting one thing, like maybe they would take a month of inventory, and did they just say, "No, we want two months instead of one month extra." How do you know that maybe they weren't pulling forward shipments ahead of a perceived price increase? Thanks.

Michele Buck

So first of all, hey, our teams have done an amazing job with the U.S. and Canadian S/4 implementation, and we don't take that lightly. We're thrilled about that. And I think we are consistent with what we've said all along, which is, "Hey, we are in a pretty good position. We're shipping products, invoicing customers, etc." But we do consider ourselves at the end of that ramp-up phase and making sure that we have a stable system, can close the books at the end of the quarter and all of that. So yes, end of Q2 is when we believe we're maybe officially stable on S/4 and have options available to us. Of course, we never speak about any of our intentions or strategies around pricing or when we might or might not, but rather just that the capability exists to be able to.

Relative to the excess inventory, frankly, we worked closely with customers because we wanted to understand how much inventory they wanted. I think a few things happened. We had some customers who maybe had not put in as much and communicated fully the requirements, so we had some of that, that added to inventory. Frankly, I think we saw some others who, in the face of other companies in the marketplace who were struggling with ERP implementations, it spooked some retailers into wanting a little bit more inventory.

So I would say relative to what we saw and was communicated to us, that's really—and we were actually able to execute more than we anticipated. We actually thought we had to plan for some kind of disruption in the start-up and assume that there'd be a cap on how much we could give retailers, so we were actually able to better fully meet what they really wanted versus originally I think we kind of tried to cap them a little more just because we weren't sure we'd be able to deliver.

Steve, is there anything you want to say?

Steve Voskuil

Where we landed in the end, we feel it was a healthy level. In the second quarter, we'll see the vast majority of that bleed out. It wasn't too much. We don't see that as a sign about trying to get ahead of price increases. The way price increases these days work their way to the market, prebuying inventory isn't really the common practice, so not much risk there.

Robert Moskow

Great. Thanks for the color.

Steve Voskuil

You bet.

Operator

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

David Palmer

Thank you. Good morning. A question on price elasticity. What do you think your price elasticity is on the chocolate products today? Do you have a sense of how that might change if cocoa prices remained elevated and if you were to need a large price increase heading into '25? Any thoughts about how that price elasticity might change?

Michele Buck

What we've seen is no material change in our elasticities over the past several months. We remain in line with historical levels, which is about minus 1, and that's what we would assume going forward.

David Palmer

Got it. You're always so good on insights. There's been this post-COVID slowdown in at-home snacking and perhaps there's that overlay of the SNAP reductions influencing that. But now there's talk about weakening low-end consumer and perhaps convenience channels being relatively weaker now. I'm just wondering how you're thinking about the net of all these things going forward and if you're seeing cross-currents between your different channels as you go through '24. Thank you.

Michele Buck

Yes. Certainly, I would agree that with value-seeking behavior that a lot of that is coming from lower-income consumers and we've seen that relative to SNAP reduction and the trends that, that drove, frankly, in our business as well as, I think, across other edibles based on what other companies have shared as well.

I would say that our C-store business is okay, and I would say mass, club and dollar are very strong. You may be seeing a little bit of that value seeking based on where that shakes out, but I wouldn't say it's something that we have seen as significant or dramatic.

David Palmer

Got it. Thank you.

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.

Michele Buck

Good morning.

Chris Carey

One quick question on gross margins. Did the complexion of your gross margin evolve at all through the year? I know there's some timing dynamics between Q1 and Q2, and the full year outlook is unchanged, but is productivity coming in better? Are parts of inflation coming in worse, or parts of inflation coming in better? Just any insight on how your delivery against this target has evolved over the past few months and is evolving over the balance of the year relative to your going expectations.

Steve Voskuil

No change. We're still, as we talked about on our call last time, about 200 basis points down year-over-year for the full year. Productivity savings off to a good start, right in line with plan, so at this point nothing material that would point to a reshaping.

Chris Carey

Okay. Yes. The follow-up is on the category comments. The way that I interpreted it was that some of the slower category at the beginning of the year is almost entirely innovation relative to your going expectations of your peer? Or is there anything else that you're seeing, which you would highlight as over and above just that one comment regarding the lapping of innovation for one of your important competitors?

Michele Buck

No, nothing else that I would highlight on that.

Chris Carey

That’s very clean. Thanks. Thank you very much.

Operator

Our next question comes from the line of Tom Palmer with Citi. Please proceed with your question.

Tom Palmer

Good morning. I wanted to just ask a little bit differently, I know you're not talking about cocoa inflation for next year, but there are some moving costs beyond just the headline cocoa inflation. You've got conversion costs and I think you're buying more butter and liquor than powder. When we just look at headline cocoa inflation, do these items like conversion and then kind of the sub-items within cocoa that you're buying, do those soften the magnitude of inflation? Are they adding to it right now? Just trying to understand that piece of the dynamic.

Steve Voskuil

Sure. Yes, you're right. Cocoa is sort of the headline, the big headline, but when you look at the cocoa derivatives, they are also increasing. We won't comment about percent increase relative to cocoa price increases, but they are inflationary just as cocoa itself is.

Tom Palmer

Okay. Understood. On the Salty Snacks side, you noted non-measured channels as a driver maybe of outperformance versus what we see in scanner. Where is that really coming from? Is this like other retailers? Is this more on the ecommerce side and should we think about it as velocity or expanded distribution?

Michele Buck

Yes. It is from club. Especially some very nice increases on Dot's that we shared last year, we got incremental distribution. At this point, it's from both distribution and velocity there. Dot's was up about 30% to start the yea, and we gained over 300 market share points. Club was one of the drivers of that.

Tom Palmer

Great. Thank you.

Operator

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

Rob Dickerson

Great. Thanks so much. Michele, maybe Steve, too, we fully understand, right, not speaking to hedging practices and where you're positioned or how you're positioned or how you're thinking about the internal hedging dynamic, but I am curious. Maybe just more broadly, we heard from another large confection company earlier this week that was able to speak in general as to just how you're thinking about this global cocoa supply, right? I'm sure you have plenty of internal and external advisers trying to provide that perspective, and I'm sure it's a lot better than ours, so I'm just curious if you have any general comments around that is the first question.

Michele Buck

Yes. Yes, we're happy to share. I would say, overall, our views about what has driven the market are somewhat consistent with what that large competitor shared earlier. As we think about it, we think both structural and transient forces have been at play impacting prices over the past several months. It certainly started with poor weather, poor weather that impacted crop, and then concerns about supply. But as we've mentioned previously, it's also about much more than just supply-and-demand economics, but rather the impacts of regulation, like the EU deforestation regulation, market speculation and also the lack of liquidity.

We continue to closely monitor supply and demand in the short term, which are the things that we can most get data and information on. The market will start and has started to get some signals on the supply outlook for the main crop. That will happen over the summer. Early reads on mid-crop look good, but it's really early. We continue to monitor that.

We also have full coverage for '24. We have some coverage into '25. Then we remain very focused on executing what's within our control. Our business strategy is to drive growth, improve share, innovate, enhance our capabilities, drive cost efficiency as we continue to monitor that environment.

Rob Dickerson

Okay. Great. Thanks for that. That was very helpful.

Then maybe, Steve, this one's a little bit more for you. I know you have the two programs focused on productivity and savings that grosses over the next three years $700 million. There's obviously some cost inflation already in the system, could be more forthcoming. I don't really think you've spoken much to the net productivity and savings, and I also don't expect you to give me an actual number. But I am just curious. How should we feel about the net impact ability on the P&L—again, broadly speaking—given what clearly is a material amount of savings and productivity over the next three years. That's it. Thanks.

Steve Voskuil

Sure. Maybe if I just take cocoa to the side and look at the rest of the business, our model is to offset inflationary costs over time through a variety of levers in the P&L and that fundamental model is still in place. Of course, cocoa is certainly stressing it in the near term, but longer term, that is still the model to cover inflation.

As we think about these savings programs, both the earlier one we discussed in the investor conference focused on productivity and then the most recent one which is a mix of SG&A savings and productivity, both of those, we like to focus on being a net benefit to the P&L over the horizons that we're talking about, which would imply we have to get other ongoing normal efficiencies to offset normal ongoing inflation. That's the way we're looking at those cost programs.

Rob Dickerson

All right, great. Thanks so much.

Steve Voskuil

You bet.

Operator

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

Jim Salera

Good morning. Thanks for taking our question. Michele, I wanted to circle back to seasons and just dig down on, you guys mentioned you gained share in Valentine's and Easter. Can you just talk through what's driving that? Then, maybe if there's any learnings that you can take to apply to—I don't know if you'd characterize it as like a mini or a bonus season with the Olympics this year?

Michele Buck

Sure. As I look at winning in season, certainly, it starts with the right product portfolio. We feel good about the portfolio. We always have innovation at the seasons, and we feel good that we have the right innovation.

Another key driver is merch. We did a very nice job with merch and our retail sales teams work in stores to get the visibility that we really desired for the category and overall for our business.

Then also, we have the ability to provide even more supply. As we've mentioned over the past several years, we had a couple of years where we were constrained by what we were able to deliver. End of last year, we really got to a much fuller place in supply across our portfolio.

Yes, all of those lessons we apply to those not traditional seasons, but those other occasional seasons, things like Super Bowl, March Madness and Olympics. We certainly plan to leverage those same levers to make Olympics a strong event for us in the summer.

Jim Salera

Great. On the Olympics specifically, if I'm not mistaken I think it's two weeks. Should we expect like in-store activations on that to run for like three weeks or four weeks, or any way to kind of size that up as we think about that at the end of the summer?

Michele Buck

Well, we usually start some of those activations ahead of the event. Retailers like to kind of highlight the event and get people engaged on ahead of time, so you will see some of those displays start as early as June, really leading into the Olympics. Then, depending on the retailer, you'll see them throughout the summer.

Jim Salera

Okay. Perfect. Thanks for this. I'll hop back in the queue.

Operator

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

John Baumgartner

Good morning. Thanks for the questions.

Michele Buck

Good morning.

John Baumgartner

In terms of the International business, there's been some high-level comments about Europe over the past year or so, I think recognizing your presence there a bit more than in the past. I'm curious how you're thinking about that market longer term. Would you say you're still in a trial period? Is there anything that still needs better understanding at this point? Just how are you thinking about Hershey's desire to maybe take the next steps? I guess it's a pretty big market with some differentiated products.

Michele Buck

Yes. Yes, it is a large market and I think the approach that we've always taken over time is it is a very well-developed, established market, and therefore we believed our best chances of succeeding are with a differentiated product.

After a lot of work, we have been successful in bringing Reese's to Europe. Really starting in the U.K., we've had some phenomenal success, but frankly, not a ton of investment and support in terms of on-the-ground people or other investments. We now have a business that we feel good about that's profitable there, and that's really our primary focus. We think about Europe a bit more from where we have that elements of a differentiated portfolio that we think can win.

(Cross-talking) I'm not looking at it as a big investment, but rather doing it efficiently to maintain strong margins.

John Baumgartner

Okay. In the U.S., I'm curious, as the consumer encounters just sort of extended period of high inflation, are you seeing any changes in terms of demand drivers for your categories where maybe the pull in advertising isn't what it used to be? Does it require more price promo? Does it require more in-store display? More front-of-store presence? Ae you seeing any changes in sort of the efficiency of the demand drivers that are out there?

Michele Buck

Yes. I guess one way that I think about it is making sure that we look at each occasion, which really comes down to kind of the pack types across the portfolio and ensuring that we have good entry-level prices based on how the consumer—and I guess price is based on how the consumer perceives value. A lot of times for the lower-income consumer, it's about an entry-level price point that enables them to participate. In some categories, it's about volume that has a better price per ounce. I think, to me, that might be the bigger piece.

I do think areas like seasons and innovation also drive value above and beyond the base products, and so I think we've seen that as well.

John Baumgartner

Thank you.

Operator

Our next question comes from the line of Alejandro Zamacona with HSBC. Please proceed with your question.

Alejandro Zamacona

Thank you. Good morning everyone. Just a follow-up on the cocoa pricing discussion. I'm curious on hearing any comments regarding the recent normalization. Recently, prices have declined 30% in the last couple of weeks, so any comments around that would be helpful. Thank you.

Michele Buck

Yes. I think first of all, that decline is just further evidence of the tremendous volatility that we're seeing in the marketplace. It's hard to peg what some of those declines—there are no new signals relative to supply and demand that are meaningful yet. Perhaps some early signs about the mid-crop, which leads us to believe that more of the decline is driven by some of the non-supply-demand economic factors but some of those other factors that we've discussed relative to speculators, thoughts on regulation, etc.

Alejandro Zamacona

Thank you.

Operator

Thank you. We have reached the end of our question-and-answer session, and with that I would like to turn the floor back over to Melissa Poole for any closing comments.

Melissa Poole

Thanks so much for joining us this morning. I know there's another call, so we'll let you all go to make sure you can attend that, and look forward to catching up later today. Have a great weekend.

Operator

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