



The Hershey Company

First Quarter 2026 Earnings Q&A Session

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

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

Andrew Lazar, *Barclays*

Megan Clapp, *Morgan Stanley*

Peter Galbo, *Bank of America*

Peter Grom, *UBS Investment Bank*

Chris Carey, *Wells Fargo Securities*

Leah Jordan, *Goldman Sachs*

David Palmer, *Evercore ISI*

Tom Palmer, *JPMorgan*

Robert Moskow, *TD Cowen*

Max Gumport, *BNP Paribas*

Jim Salera, *Stephens Inc.*

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PRESENTATION

Operator

Greetings and welcome to The Hershey Company First Quarter 2026 Question & Answer Session.

To join the question queue, please press star, one on your telephone keypad. At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded.

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

Anoori Naughton

Good morning everyone. Thank you for joining us today for The Hershey Company's First Quarter 2026 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 prerecorded remarks. At the conclusion of today's live Q&A session, we will also post a transcript and audio replay of this call.

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

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

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

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

Operator

Thank you. As a reminder, if you'd like to join the question queue, please press star, one. Also, we'd like to remind you to please keep to one question and one follow-up.

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.

Kirk Tanner

Good morning, Andrew.

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Andrew Lazar

Good morning. I was hoping maybe to focus in a little bit on North America Confectionary to start. I think in the press release you mentioned that lower year-over-year CMG market share due to increased marketplace competition. I know investors are understandably sensitive to this, just given the significant drop of cocoa prices of late and the concern that this could lead to sort of incremental competitive activity to spur volumes in light of elasticity. I was maybe hoping you could dig into just what you're seeing in the marketplace a bit more and what would you expect as some of the activations and tentpole events sort of kick in? Would you, I guess anticipate that Hershey returns to share growth either in 2Q or as we move through the year?

Kirk Tanner

Great question. I'd start with competition continues to be highly rational. So it's no change in the pricing environment. I just want to start with that. We have seen increased competitive innovation and merchandising from both mainstream and premium competitors. That's what makes this category so attractive to consumers; it's one of the reasons it's so resilient. Some of that happened a little earlier than we expected.

We feel really good about our position as we exit spring resets in a net positive position across items and innovation in key channels, and our spring and summer merchandising programs ramp up. Premium chocolate continues to be that segment that grows really well, but we are charging into that space aggressively and we have plans in the back half of this year to have some innovation and we'll continue to develop that.

But overall, yes, we're in a competitive environment. We feel good about where we're going. We have momentum planned for the second half of the year that we feel really good about, but it is a rational pricing environment, Andrew.

Andrew Lazar

Great. That's really helpful.

Then you mentioned Easter sell-through was ahead of expectation. I guess it looks like maybe share was a bit weaker just in the past few weeks of data. Was just hoping you could square those two things for us. I guess, how was Easter share versus your expectations? Thanks again.

Kirk Tanner

Yes. I look at the category in the first quarter. Overall, the category in Confection was really resilient growing high single digits as expected.

Overall, Easter was good for us. Category sales declined really due to the two fewer weeks versus last year, but our sell-through was really strong and outperformed out expectations. I'd say that's the notable part given that Hershey's share—we're a share leader at the season and we typically index much higher, and so the two weeks was a big impact on the overall season. But we're very happy with our performance and the sell-through. We thought those exceeded our expectation. And our share was also ahead of our expectations coming out of Easter.

Andrew Lazar

Thanks so much.

Operator

Thank you. Our next question comes from the line of Megan Clapp with Morgan Stanley. Please proceed with your question.

Megan Clapp

Great. Thanks so much. Good morning. Maybe we could—I wanted to start on the macro. When we sat here two and a half months ago, I think the initial outlook you provided included what you called prudent assumptions, which you reiterated today but obviously since then the backdrop has gotten more challenging. You talked in your remarks there's elevated geopolitical uncertainty and we're seeing higher gas prices as a result. So, wondered if maybe you could just unpack a little bit more in terms of what you've seen in the macro so far relative to your expectations, particularly on things like SNAP where maybe you have a little bit more data.

Then just broadly, as you sit here today, do you think that the guidance that you have for the remainder of the year still kind of gives you the same degree of cushion on the macro as you thought in the beginning of the year? Thanks.

Kirk Tanner

Really, really relevant question. Thanks for that.

Consumer behavior, let's just kind of start with this quarter and then as we move through the year. But consumer behavior remained really steady throughout the quarter with shoppers making thoughtful choices. GLP-1 trends remained consistent. SNAP impact was mild given waivers were limited to five states and higher gas prices had minimal effects. We continue to monitor those very closely, but overall the macro environment is tracking within our expectations of the year.

When we talk about SNAP specifically, we realistically modeled the possible effects right from the beginning. In the first quarter, the five states that were in place, which means the overall impact was, as I mentioned, pretty mild or minor. In those states, the effect of both the category and our business aligned with our estimates, which gives us much more confidence for the full year outlook.

Now, where implemented, we do see considerable consumer confusion and it's possible that that would improve over time. We planned for this headwind to increase over the course of the year with SNAP, and we will adjust our plans to meet the needs of the consumer with portfolio impact types. But it's in our assumptions. I think that's the important thing. We're not seeing anything that's kind of out of how we've modeled the year and our outlook for the year. I think that stays on track as far as SNAP goes.

Megan Clapp

Great. That's helpful.

Maybe just a related question on elasticities. Last quarter, you talked about planning for around 0.8, even though actuals are running better and talked about that as maybe being potential upside to your expectations for the guidance. This quarter you talked about elasticities being favorable versus planned levels. Has anything changed in April so far, or are you still embedding that same level of conservatism on elasticities for the balance of the year? And as we think about the second quarter and what's implied from an organic sales growth perspective, how much of that is just the shipment timing and Easter reversing versus maybe something more fundamental in how you're thinking about demand?

Kirk Tanner

I'll kick that over to Steve for that one.

Steve Voskuil

Sure. Yes. On the elasticities, you said it. We continue to model what we have before, that 0.8. We're pleased to see it still holding. We have some things that'll be coming to market. Price Pack Architecture, for example, is hitting shelves right now, so we'll continue to watch that to see if the elasticities evolve as they can sometimes. But right now, right in line with what we've – better than what we've modeled and expect that to continue.

Then relative to Q2 retail or Q2 sales expectations, the biggest pieces on the organic side were the timing issues. Two parts to that. Kirk said Easter sell-through was strong, and so one upshot from that was earlier shipping of some of our spring programming including S'mores, for example, which is actually getting activated as we speak. That's earlier than we typically would have seen.

We also had a little bit of pull forward internationally as some customers were playing a little bit of defense trying to get ahead or offense trying to get ahead of potential disruption in the Middle East.

Those were the two big pieces that sort of pulled things forward from our standpoint. Nothing structurally different relative to Q2 expectations.

Megan Clapp

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Peter Galbo with Bank of America. Please proceed with your question.

Peter Galbo

Hey. Good morning, guys. Steve, maybe if I can...

Kirk Tanner

Good morning, Peter.

Peter Galbo

Morning, Kirk. If I could pick up on the back of Megan's question there on 2Q organic sales, I think the implied is that Confection organic may actually dip negative in the second quarter, just given some of the timing aspects, so I just wanted to press on that a little bit just as a clarification point.

Steve Voskuil

Yes, it is expected to be slightly down in Q2 due to that timing that we just talked about.

Peter Galbo

Okay. Great. Thanks for that.

Then just a broader question. Steve, in terms of just the margin cadence over the rest of the year, obviously there was a little bit of favorability I think on the gross margin side, maybe because of some of the volume, but maybe you can just help us think about gross margin phasing over the back three quarters of the year. Thanks very much, guys.

Steve Voskuil

Sure. We're expecting in Q2 gross margins to increase by nearly 300 basis points versus the prior year period, so that's where you really start to see the inflection. And then as we get to the back half of the year, we expect something greater than 500 basis points. And again, we've got the year pretty well planned out, so I'd say we have good visibility to that. But that's how that inflection starts in Q2 and then accelerates in the back half.

Peter Galbo

Great. I'll pass it on.

Operator

Thank you. Our next question comes from the line of Peter Grom with UBS. Please proceed with your question.

Peter Grom

Great. Thank you, and good morning everyone. Kirk, in your prepared remarks, you touched on some of the drivers that you believe will keep top line momentum in the back half of the year as you annualize pricing impact. Can you maybe just unpack that a bit more and maybe more specifically, what's the degree of visibility or level of confidence on that momentum or that momentum can be sustained as you look ahead?

Kirk Tanner

Yes, good question. We have confidence in H2, driven by a few things. One, we see a really strong seasons plan for the second half. Our tentpoles will deliver a full point of growth. Americana, the Hershey Movie, we've got a lot built into that, a lot of support from our customers.

Resets have been really important, so gains across several channels, mass, grocery, dollar, drug, so, we see real positive position coming out of the spring resets, which is important to us.

And then innovation. We've got good innovation. We'll have a big innovation on Hershey's in the fall as well that we're really excited about. It gets us into that Accessible Premium space. So, that is really important.

Now, of course, we're watching the macros just like everyone, but when we think about what we can control, we feel really good and we have a lot of confidence in where we're going as we ramp up our execution and deliver against our plan.

So, we feel good about H2. Again, we'll keep an eye on the macros and control what we can control.

Peter Grom

No, that's great and very helpful. Then just a follow-up on snacks. A strong quarter at 5%, but I think it's a bit below what we see in terms of consumption. In the remarks, you touched on plan production and label production and product recall. Do those items account for the entire gap relative to what we see in consumption? And then maybe specifically, any thoughts around how we should be thinking about growth for this segment moving forward, especially just in the context of the implied guidance?

Kirk Tanner

One thing that I would say on Snacks or on our Salty Snacks is that's primarily driven by private label. And so, our core brands in Salty are up nearly 10%. So, that is not the issue.

Now, as you know, as we brought those businesses in, we have a private label business, that's getting smaller in our business over time, so, that's a bit of it. Our Salty brands are doing exceptionally well.

Steve Voskuil

I'll just say, in terms of the profitability side, you really pointed to the two things. We had a couple of discrete things. The voluntary withdrawal was actually immaterial in total, but that combined with the delayed opening of the DC meant that we spent more on logistics with trying a fast-growing business trying to maintain strong service. And so, those additional costs were incurred in the quarter. They're done and so, now we're in a better spot, and we expect operating income to grow and increase by double digits for the year.

So, small speed bump in the first quarter, but past it and back on track.

Peter Grom

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

Operator

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

Chris Carey

Hi. Good morning everyone. Can I just follow up on the Snacks margin? Obviously, kind of some discrete headwinds in the quarter, a relatively low watermark on margins. You talked about accelerating profit from here. Is that mostly driven by just the sequential improvement in margins as opposed to, say, top line?

And then, do you still feel good about the margin targets that you had put out there at Investor Day? Just maybe contextualize that, and then have a follow-up.

Steve Voskuil

Yes. Really, the marginal improvement on the basis of just not having those one-time issues, that'll be the biggest factor. We are going to have some amortization that will come along with the LesserEvil acquisition, so that's sort of in the base. And there's some mix impact with LesserEvil in the mix at a kind of total, Salty level. But those are expected. And aside from that, kind of on the core business, we'll continue to see that margin improvement over the course of the year.

Chris Carey

Okay, thanks. And just a follow-up on the spring resets, a lot of exciting activity from here. Can you just give us a bit more insight on some of the key wins? How you expect those benefits to come through, and some of the timing? Thanks so much.

Kirk Tanner

Yes, yes. I think about those in two things – space in the number of new facings, new SKUs that we have in the sets across the primary channels, across mass, dollar, drug, and grocery. That's a big part. So winning at the shelf is the first thing I think about and we're in a positive position there.

The second is the support that we're getting from retailers on the perimeter with our tentpole events. I think the combination of both winning at the shelf and winning on the perimeter supported by our retail sales team, is really how we're thinking about that. That's really the one-two punch of the momentum that we see in the second half. That shows up in tentpole and season events, too, on the perimeters and the support

that we get. But it really is both, winning across CMG and Salty for both shelf space wins and perimeter inventory. And we're tracking that. We're very disciplined about looking at that every single week. So we feel really good about where we're going.

Chris Carey

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Leah Jordan with Goldman Sachs. Please proceed with your question.

Leah Jordan

Thank you. Good morning. You noted a mild impact from higher gas prices on the consumer. But just, if you could provide more color on how your sales have trended in the C-store channel specifically and how you think about potentially supporting that channel if these macro challenges sustain?

Kirk Tanner

Yes, we made those comments early in Q1, right? We saw very little impact. It was a later event. I think it really comes to how high the prices go and how long they stay.

C-Store is the right question to ask. We look at that as well. And our Confection business continues to perform in line with our expectation. We look at things like our immediate consumption business and those continue to do well through this time. Again, we know that this is a longer issue that could have a bigger impact but right now, we see that performance standing in check and so we feel good about that. But we're always staying focused on that and looking for other things that we can do with our retail partners in the convenience channel to keep the business front in mind.

We know that when high gas prices happen, frequency goes up with consumers. They come to the gas station more. They buy—they're purchasing less but the frequency goes up. That keeps the channel robust, at least with our category.

And again, we continue to see results as expected right now. So we're feeling good about it. But we'll stay focused on it. I'll stay very focused on that.

Leah Jordan

Okay, great. Thank you. Then just a quick follow-up from an earlier question. Just seeing if you could provide more color on your visibility maybe around costs for packaging and in freight specifically. I guess, what have you actually seen in higher costs so far? And then what are you baking in for the back half? Thank you.

Steve Voskuil

Yes, I'm happy to take that one. So far we're really not seeing a big impact. Again, in the hedging program and our commodities team, some of these impacts and commodities are managed through that group and so we've got good visibility really through this year and in some cases even beyond.

Now, having said that, like Kirk said, if it looks like it's going to be prolonged and it's going to be significant, then we'll be looking further out at some of the implications. But right now from everything we can see, we're in a good spot. Feel well covered for 2026.

Leah Jordan

Great. Thank you.

Operator

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

David Palmer

Thanks. Good morning. I wanted to ask you a couple questions on the merchandising front and some of the stuff you touched on in your prepared remarks.

Back in the investor day, you talked about the evolution of pack types and shelf sets. I know some of that was planned maybe more into the fall. I think you said the stand-up bags for take-home were maybe something that would get increased distribution into the second half of the year. But you mentioned some stuff earlier on. Maybe you can give a summary of maybe what you're doing now and what's coming.

And then as far as promotions, I wonder, are we going to see in scanner data more display year over year in the data as you're more all months on, so to speak?

Kirk Tanner

Yes, you're asking the right questions. When we get down to the details of how we execute at retail, I think that's really important, David.

We start with the number of SKU gains that we are getting across mass grocery dollar and we're building that into kind of a pipeline. We are deploying the stand-up bags versus lie-flat bags, so that is something that is consumer preferred. It elevates. We've tested that. That is well received by consumers and it just drives visibility. It's something that makes the category easier to navigate and shop, accessible, all those things that category management drives. That's the first.

We're looking at how productive the shelf is. We're measuring on-shelf availability just as our customers do. And we go over that every single week, so that intensity around the shelf is really important.

The second area is perimeter and what does tent pole activation on top of seasons do? We measure inventory, points of interruption on the floor, amount of inventory that we have on the floor, and location in the store. I think that helps us drive what's incremental, how this delivers against the plan, how much growth we're getting into this place, and what new occasions we're driving.

New occasions are like as we come into the celebration of the 250-year celebration of our country for the Fourth of July, we are bringing Hershey Kisses, our Hershey Bars platform, our S'mores platform, and our Dots pretzel platform into that, so we're going after that new occasion being a part of that celebration and a party. That's incremental to what we have done in the past and that's really the element of what tentpoles brings. It is more activation on the perimeter, getting into more occasions and more moments that consumers are celebrating.

The combination of those two things is what gives us a lot of confidence for the second half of the year.

David Palmer

Thanks for that. I just wanted to get a sense from you—I remember last Halloween you were talking about how you maybe had some regrets about some bits of execution, maybe pack types you were promoting and some other things. But bigger picture it feels like seasons were such a rich harvest for Hershey. You

guys were leaning into it, particularly during the COVID era. Maybe some of this is just an era that happened where the going was good and you got a lot out of it. But I'm wondering how you're thinking about seasons going forward, not just Halloween. Is this going to be something that kind of tracks with Confectionary growth overall for you? How do you think about seasons going forward?

Kirk Tanner

Yes, we have a great foundation for seasons. But I think that we can be even more disruptive in looking for what consumers are looking for.

As we go into Halloween, even this year, we feel really good about what we learned and then what new things we can bring to consumers that they're looking for that make that season even more robust. As a leader in seasons, it's on us to be much more thoughtful about where consumers are going, continuing to modernize it. But we're building from a very strong base.

But as I look at seasons in the second half, we feel really good. We can see the buys with our customers. We can see what's landing. And you can evaluate, "Hey, are we going to have a really good season?" "Is this going to be an okay season?" We're feeling really good about the back half seasons with what we've been able to partner with our customers with.

David Palmer

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Tom Palmer with JPMorgan. Please proceed with your question.

Tom Palmer

Good morning and thanks for the question. Sorry to kind of be the third person to ask here, but I did just want to maybe clarify on the expected headline organic sales growth slowdown in the second quarter. I appreciate you've really highlighted it as more shipment timing than anything else, but could we just kind of quantify the specific items that are driving the slowdown?

There was two points for, I think, ship-ahead in the first quarter. There was maybe some Easter timing to consider. Is there anything else? Just could we kind of quantify like underlying maybe what 1Q would look like versus 2Q if we strip out some of this timing?

Steve Voskuil

Yes, you've got the biggest pieces. We said slightly down in Q2 due to the timing. Easter sell-through was strong, so the Q2 impact is bigger than anticipated. That and that little bit in International that we talked about are really the two biggest drivers of pulling forward.

Kirk Tanner

Yes, I'll just share a little bit of how I think about it.

Easter was a significant timing issue, right? So we saw that. We saw sell-through go really well. That pulled a few of our programming into quarter one.

But then if I look at what success looks like, the overall consumption trends are staying consistent. So once you get through the overlap in April, you'll see momentum pick up in May, and you'll see momentum pick

up in June. So you think about those consistencies. If you remove those one-time events, I think you're going to see very consistent performance on consumption, sell-through, and execution.

So I'm looking at April, the impact of Easter, May with some momentum, certainly building, and getting back on track in June following that.

Tom Palmer

Okay, thank you for that color. Then a question on the spring shelf resets. Maybe frame it relative to past years. Is this more impactful? More changes than we've seen recently?

Kirk Tanner

Yes, we feel good about what we're seeing from an increase versus a year ago versus what we've seen in the last couple of years. I'm confident that this is a win for us. It's a win for the portfolio that we have, plus some of the moves we made for making the gondola much more shoppable and inspiring for consumers.

When you package it all together, number of facings, stand-up, merchandising, and how we were merchandising with all the category management insights, I feel really good about where we're going this year versus last year, yes.

Tom Palmer

Thank you.

Operator

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

Robert Moskow

Hi, thanks. A couple of questions about innovation. I wanted to know, what are your expectations for this Hershey Premium product you're launching in the second half?

Hershey's struggled to introduce viable Premium offerings in the past. I think there's questions out there about how far the brand can stretch, so I'm trying to figure out how big of a bet it is. And then I have a follow-up.

Kirk Tanner

Well, overall, innovation we feel really good about. Let me talk about Hershey, this elevated experience.

This is a truly elevated—and maybe, Robert, if you were at Investor Day, you had the opportunity to try this.

Robert Moskow

I did.

Kirk Tanner

I absolutely love these products. Well, hopefully you loved them.

Robert Moskow

I did.

Kirk Tanner

All right. Well, I love them. They're an important part.

I think that when you look at innovation, it is a collection of those things. So we have high expectations for that brand and we think it's right in the sweet spot of what Hershey can deliver, and that's on deep consumer research and understanding and testing. So we know that we have the opportunity with Hershey to nail it and knock it out of the park with that innovation.

But we also look at innovation in totality. So across our portfolio, across our Sweets portfolio with Jolly Rancher. We also continue to see Reese's Oreo be a standout. You add on the Hershey innovation and you see that. Plus then we have a big Hershey experience with Hershey Movie coming out in quarter four. But it's the collection of those things is how we model and build our business. It's not reliant on one thing. It is the collection of those things that make the business strong.

Having said all that, we have really good expectations for this elevated Hershey experience and we are launching a product that consumers in the testing have loved.

Robert Moskow

Okay. My follow-up was about Sweets. Can you tease out Sweets performance in first quarter and what your expectations are for this year?

The data shows that the Shaq product line is down substantially. You know, the Sweets portfolio had been growing 20%-plus. I just want to get a sense of your confidence that you can capitalize on the strong consumer demand for, especially among young people, for this segment.

Kirk Tanner

Our biggest spread in Sweets is Jolly Rancher, and Jolly Rancher performed very well as I said in my opening comments. It performed much faster than the category. That continues. There was some really good innovation on Heat Wave, etc.

Now, we've launched a new item with the Shaq lineup. That will give us some momentum later this spring and in the summer. So, we feel good about where we are with Sweets. Jolly Rancher will continue to be a hero in the space. We've got a strong program around Twizzlers this summer and we have a robust pipeline in '27 and '28 across Sweets that we'll share. We've shared some of the Sweets portfolio and the innovation that's coming, so we're going to continue to invest in this.

When we talk about investing in R&D, there's some specific areas that we're focused on. One is Premium. Two is Sweets. Three is Better for You. You'll see us continue to make that pipeline much more robust in the future. We've seen that. That is in our R&D right now, and we've seen that pipeline, so we feel really good about where we're going.

Robert Moskow

Great. Thank you.

Operator

Thank you. Our next question comes from line of Max Gumpert with BNP Paribas. Please proceed with your question.

Max Gumport

Hey, thanks for the question. I wanted to return to some of the macro headwinds you're watching. Two of them included the accelerated health and wellness trends and increasing GLP-1 adoption. Can you just provide an updated view on what you're seeing there and also how you're looking to navigate your portfolio through these headwinds? Thanks very much.

Kirk Tanner

Yes. Hey, thanks for the question. I was just going to go back. One of the key drivers of the Confection category in particular is that this is an emotional category. It is a treat, not a meal and I think that's playing out with GLP-1 users and the overall health and wellness trends.

Consumers on these drugs, specifically GLP-1, continue to enjoy the category in smaller portions. We know that. Our research supports the Confection category is relatively insulated compared to other food categories. Our framework for estimating the GLP-1 impact includes scenario assumptions for both the near and the long-term horizon for adoption rates. So, we have been monitoring calorie reduction, user lap rates, and other behavior changes.

Now, the accelerated adoption rate alongside affordability and new formats are well contemplated in our outlook. So, we spend a great deal of time understanding this. It is in our outlook. It is in line with what we've seen and what we expect. But we'll continue to do this. But this is something that we are continuously monitoring.

But overall, again, the category is about a treat. It's still being enjoyed through this. Again, it's about 40 calories per day, two to three servings per week for the average American on confection. So, that's just the scope of what we're seeing. So, that gives us the confidence of where we're going here with this macro.

Max Gumport

Great. Thanks very much.

Then, just returning to price elasticity, it sounds like everything you're seeing is quite good so far. It's running better than planned. Competitors have followed. Retailers have accepted. Obviously, the price elasticity response suggests consumers are not showing a worse reaction than feared, but can you just provide a bit more color about how this informs your view of your performance from here and also how it factors into the 2% to 4% organic sales growth target you gave for '27 just a month ago? Thanks very much.

Steve Voskuil

Yes, sure. I'd be happy to take that one.

As I said, elasticities are running favorable. They have so far. They continue to, and it just points to the resilience in these categories, especially in instant consumables, refreshment, and seasons. We've talked in the past how seasons are so precious to consumers. As we look out we don't see a material change.

It doesn't change—as we think about the outlook for the year, we're not changing the guides. We're still inside the earlier guidance, even though the Q1 results look strong. And it's partly because we still have that price pack architecture hitting shelves as we speak. And we know elasticities can move, so I'll say we're being a little bit cautious there. But we'll continue to monitor it over the coming quarters. We'll be in a better spot to take a look at the guide at the mid-year mark. We'll have most of the price pack architecture in place at that point and have a better bead. But we're really encouraged by what we're seeing so far in the resilience of the consumer in the category.

Operator

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

Jim Salera

Hi, guys. Good morning. Thanks for taking our question.

Kirk, you mentioned tentpoles are poised to add a full point of growth this year. I'm wondering if you can offer some detail around the retail execution given there's a much higher frequency compared to traditional calendar with really just the seasons. I imagine there's at least some kind of different messaging, whether it's marketing or in-store, that's going to call attention to kind of uniqueness of each of those tentpoles. Can you just walk through how the sales force is dealing with that and maybe how the marketing team is calling attention to each of those unique occasions?

Kirk Tanner

Yes, I think that is a great question. This really brings the best of demand creation and demand execution or demand fulfillment.

These moments, like the 4th of July, is typically where we did not participate. Between Salty and Sweet, we have this great opportunity to participate in these big moments of celebration that are relevant with consumers. So that's kind of the motivation inspiration behind it.

Now, what we've done is we've worked with our customers, we've put the demand creation together with the marketing, and then what we do is we bring that to life like we've never done before at the 4th of July, and we've activated that with our sales force. Our customers are encouraged by this because, look, it just makes these events bigger in-store. It brings more retail theater to the store with our big brands like Hershey and Dots, and that makes the overall season better for the retailer.

So that is kind of leveraging our strength as a business to bring more relevance to these holidays, and it gives us a chance to capture some of that share, that share of that occasion.

This allows us to go from a season into a tentpole into a season into a tentpole, again, and that allows our sales force to be constantly focused on how they develop those big moments in retail, and our customers are very supportive of this. It gives more for the shopper to engage with. But I would say this is playing to our strengths.

Jim Salera

Do you have any sense for how much of a gap there is between some of the tentpoles and the traditional season events? I just wonder if there might be a concern of some overlap if somebody stocked up on Hershey Kisses or LesserEvil popcorn ahead of what would otherwise be kind of a seasonal purchase window.

Kirk Tanner

No, I mean, there's enough gap between these that we're measuring incrementality, and the breadth of our portfolio allows us to play in these tentpoles and seasons without being redundant or cannibalizing each other.

We are the number one season executor in CMG. We have the largest share of seasons. So when you bring tentpoles to life, we're bringing them to life with different brands, different opportunities, and we're making them as incremental as possible.

I would tell you a big collaborator in this is our customers. Our customers own the categories as well, and this is leveraging the best of what we have and the best insights that they have, and that's really what the magic is.

But right now, I feel like there's a really good cadence. You'll see this summer, you'll see us execute the 250 anniversary. You'll see us execute S'mores and summer travel. Then you're going to go into Halloween, and there's a nice gap between those to have the sell-down and then the build for Halloween. It really makes sense for retail.

Jim Salera

Great. I appreciate the thoughts. I'll hop back into the queue.

Operator

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

Alexia Howard

Good morning everyone. Can I ask about the Reese's expansion in Europe? I know a while back you mentioned that in the U.K. the household penetration was in the high teens, I believe, but that was a while ago. Where have you got to now? I believe you may have gone into some other countries in Europe with Reese's. At what point do you start to think about actually putting plant manufacturing capacity into that region?

Kirk Tanner

Yes, great question. We continue to see Reese's thrive in the U.K. and other European countries. Our plan is to continue to develop that.

We have a win with Reese's plan that is working. We see innovation off that platform, and that is a real platform in the U.K.

We're today leveraging a couple things. We are leveraging imports, and we're leveraging local manufacturing for some of the products.

The plan is to scale Reese's internationally, especially in the U.K. and Europe. Once we scale, then we'll look to insource. I think that's the natural progression of how we build that business and make it much more profitable.

I would tell you what we've learned in the playbook that we've learned in the U.K. and Europe is allowing us to take it other places. I was just recently in Brazil. It's starting in Brazil. It's having the same impact. Brazilians love peanut butter. And so it is, again, we'll run that playbook and allow us to build that platform.

It's also working in Mexico. Now we manufacture it in Mexico, so it's a little closer to home. But those are the playbooks that we are developing in one country or one market that we're able to take into other markets, and Reese's has been very exciting for us in that regard.

Alexia Howard

Great. Then just to follow up on Rob Moskow's question, innovation. Are you able to quantify where you're at in new products as a percent of sales introduced over, say, the last three years? Are you at the level that you think you want to be at? Can you sustain the level, or do you need to go higher?

Kirk Tanner

Well, I think that's a great question. It's a high single-digit level of contribution to percent of sales for us. I think there's always opportunity, and I would tell you that our innovation strategy is one of focus, meaning we are innovating in those places that we have the greatest opportunity for us. That is Premium, Sweets, Better for You.

I think I would think about that also in concert of growing our core brands. Our core continues to grow faster than the category. And so when you have a healthy core business in Reese's and Hershey, your innovation is even more meaningful. So, again, innovation will be focused. I think there's always more for us to do, especially when we get more breakthroughs with Sweets and Premium and Better for You, that will give us even further traction as we develop the portfolio.

Now, on the Salty Snacks side, we continue to innovate as well. Also a really important part of building our portfolio. We just recently launched the snack mix behind the Dots brand, and that's done exceptionally well. So, again, that same model of healthy core, and then innovation that's more disruptive in nature in Salty where we're taking the snack mix category and disrupting it with Dots and seeing a lot of traction with consumers there.

I would tell you this company is very focused on raising the bar on innovation and we have a lot of momentum in front of us.

Alexia Howard

Great.

Steve Voskuil

All I would add there is one of the reasons we talked about incremental R&D investment coming to help build that capability and build that muscle for the future.

Alexia Howard

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

Operator

Thank you. Our next question comes from the line of Scott Marks with Jefferies. Please proceed with your question.

Scott Marks

Hey, good morning, all. Thanks very much for taking our questions. First thing I wanted to ask you about, in the pre-recorded remarks you noted that the Hershey and Reese's brand non-seasonals grew pretty materially. I think you called out 11% and 10% growth there. Could you help us understand the drivers behind that? I know you called out March Madness tentpole, but is there anything else helping support that strong performance?

Kirk Tanner

Yes, there's a couple things. Our Hershey campaign, if you remember, during the Olympics was very well received, and that gave a lot of lift to the Hershey brand. That, I think, is really important.

On Reese's, Reese's was the center of our big tentpole event for March Madness. That allowed us to build inventory and get traction on the brand.

But when we look at programming behind creating demand for the brand Hershey's and Reese's, this is an example of how it comes to life and works, and it works on the core. Q1 is just an example of how that can come to life.

Scott Marks

Okay, clear on that. And then second question from me, in terms of how you're thinking about the cocoa market and outlook, one of your chocolate competitors earlier this week said that they believe current prices fairly reflect where supply and demand are globally. Just curious if you can give us an update on your thoughts around the cocoa market and how you're thinking about go-forward from here.

Steve Voskuil

Sure. Yes, we still remain in the view that long term, cocoa could remain above some of those really lower historical levels that we've seen. Now, we'll see how it plays out. So I'd say long term, we'll probably have a somewhat cautious view.

In the near term we continue to anticipate a larger surplus in '25 and '26 with partly diversification of the supply chain, strong crops, declining demand, continued expansion and new origins and so forth. So if that happens, if we would see cocoa fall as we talked about at the investor conference, we have ability to participate, particularly in 2027 and beyond, in that downside and so those would be things that could trigger upside opportunity to our 2027 and 2028 outlook.

But we're watching the space closely, obviously making sure that we're managing the business for the long-term in terms of hedging, but also in structures that allow agility to participate in downside.

Scott Marks

Appreciate the thoughts. I'll pass it on.

Operator

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

Michael Lavery

Thank you. Good morning. Yes, just picking up on '27 there, I know it was only a month ago you gave a preliminary outlook there. But any thoughts since? And maybe in particular, could you help contextualize how to think about some of the risks from higher oil-related costs, maybe how much of a percent of COGS that impacts or just how to think about what to watch there?

Steve Voskuil

Sure. I'm happy to kind of take that. I think we talked a little bit about the conference in general about things that could go up, upsides or downsides for 2027. We kind of broke them into controllables and non-controllables. I think that basket is still largely the same. The things that we can control around innovation and media, ROIs, tentpoles as we just talked about, elasticity to some degree, and, of course, continuing to deliver on productivity and cost savings, all of those things we continue to have high confidence on our ability to manage and execute.

We do have some factors outside of our control. We just touched on cocoa being one; that could potentially be an upside. We'll see where the market goes. And then the macro headwinds and, of course, competition.

So far—and I'll come to oil. As Kirk said earlier, from a macro standpoint, there's nothing worth seeing that's sort of outside the bounds of what we would have talked about back at the conference. You know, we didn't expect those areas to get better in '27, and that's factored into the outlook.

With respect to oil in particular, it's pretty small exposure for us. The bigger impact would be indirect through packaging and so forth, and those impacts take time. So it does go back a little to what Kirk said about how high and how long would the oil price impact last. At this stage, sitting here, we wouldn't change anything as we look to '27 and beyond.

Michael Lavery

Okay, that's helpful.

Just a follow-up back on the 2026 outlook. You had pointed to elasticities remaining favorable as a potential driver of upside to guidance, and it sounds like that's so far sticking and staying true. I guess what's some of your thinking on holding it then? Is it just that it's a little bit early still? I know you mentioned some price pack architecture changes still coming. Are those maybe more significant than we might appreciate? How do you help us think about some of that?

Steve Voskuil

Yes, I think it's just being cautious. You know, we said we're really pleased with the start to the year, feel really confident about the balance of year items that we can control. Elasticities, they can move around, but we like what we see and our projection is still strong.

But like we just talked about, oil price is kind of a new macro to keep an eye on, and in general there's still a lot of movement and evolution in those macros. So I think it's just a prudent approach. By the time we get to the mid-year mark, we'll have a lot more visibility on all of this and be able to take potentially a different position.

Michael Lavery

Okay, thanks a lot. I'll pass the call.

Operator

Thank you. Our next question comes from the line of Steve Powers with Deutsche Bank. Please proceed with your question.

Steve Powers

Great, thanks very much. First, a quick follow-up. Kirk, I think you mentioned earlier just in talking about the Snacks growth rate that your choices to deprioritize some of the non-core, non-branded parts of the portfolio was a bit of a notable drag on the top line relative to consumption. I guess I wanted to frame how big that non-core part of the portfolio is today and whether that is something that we should keep in mind as a drag that will continue or if it was more just isolated this quarter.

Kirk Tanner

Yes, it will continue to be a drag, and I will continue to communicate kind of where the brand performance is versus the private label. This is something that was planned, and it's something we're working with our customers on, so we feel really good about that.

I think our focus is on driving meaningful volume and growth with our branded products, and we like where we're going. We are driving a significant amount of the growth in the category, so if you look at Salty, the

drivers of growth are definitely Dots, Skinny Pop, LesserEvil. They're driving exceptional growth, and we see that continuing.

Now, part of the private label, yes, that will be a drag, but overall we'll be in a really good place full year on both top line and bottom line for our Salty portfolio.

Steve Powers

Okay, perfect. Then I just wanted to ask on functional stacking. I don't think we've talked about it yet on this call. It was one of the higher growth platforms that I think you highlighted and we discussed as Investor Day. Maybe just a little perspective on how that part of the business is situated as we go into the balance of the year, and I guess maybe from your perspective, if perhaps that is a higher priority for incremental investment and attention than maybe on the outside it's perceived.

Kirk Tanner

Yes, absolutely, and that's a big growth. I mean, the business is relatively small compared to the rest of our business. That is an area that we are investing in. This is a space that consumers are in, and we're seeing a high level of growth reflected in our earlier comments. That will continue to be a part.

Now, our job is to build this business to be a much larger, more influential part of our business, and we're doing just that. We're investing in R&D. We're updating our formulas. You'll see really good brand work across ONE and Fulfil.

We've also entered into a JV with Vitakey, which is has breakthrough protein delivery that we really like to see, and that R&D will be meaningfully different. We know that we have to be differentiated in this space, and we feel really good about where we're going with the protein and functional business. And right now we're seeing high mid-single digit or maybe double digit growth on our business today, and we know we can build that for the future.

More to come from us on this area. It's a small but mighty part of our growth, and you'll see the investment in innovation, and we'll have a lot more to talk about for some of these breakthroughs that we're working on.

Steve Powers

Okay. Very good. Thank you so much.

Operator

Thank you. Our next question comes from the line of Rob Dickerson with Jeffries. Please proceed with your question.

Rob Dickerson

Great. Thank you. I'm at BTIG now, but I appreciate the shoutout.

Steve, I just wanted to come back to the margin question again, but more specific to Confection. You know, I mean, obviously there's been a lot of volatility over the past few years for pretty well understood reasons. Clearly did better in Q1 versus last year's Q1. But then there's some shifts in Easter and there's reinvestment, there are activations coming. And so I'm just kind of curious, I guess it's more specific to cadence, but also for the rest of the year, but also just kind of relative to history, right? If we kind of exclude the past few years, your Confection margin was somewhat stable I'd say quarter to quarter. Clearly some seasonality differences, but somewhat stable.

So I'm just curious, as we think through kind of this year, right, with cacao coming down, and then also, I guess, into next year is there kind of a perspective that, "Yes, I think the next few quarters, there should be more stability," or should we see it like maybe even come down a little bit in Q2 and then really ramp as we get through the back half of the year? And then I have a quick follow-up. Thanks.

Steve Voskuil

Sure. Yes, we are going to see some movements still in quarter, but our challenge always is season, season timing. I feel like forever we'll be talking about seasonal timing, quarter-to-quarter variability related to that.

But as we look through the balance, there's nothing big changing. More tentpoles to plan for, more activation to plan for, but we're going to—particularly as we get to the back half of the year and we start lapping some of the higher-priced cocoa and commodities, we're going to see that step up.

And so we're not—we're going to see that play out over the course of the year. I would say there's nothing unusual to really point out in that sequence.

Rob Dickerson

Okay. Okay. So if we think about kind of where the gross margin cadence kind of planned for the year, it would seem like kind of plus or minus, let's say, kind of the op margin in Confection would kind of follow. Is that fair?

Steve Voskuil

Can you say that again? I'm not sure I totally understood your question.

Rob Dickerson

Gross margin, right? You spoke earlier to kind of what was implied in Q2 and in the back half. I'm just curious, like, is the cadence kind of the trajectory on North American Confectionary margin, operating margin, should kind of basically track with gross margin. Thanks.

Steve Voskuil

Yeas, the difference is—where they will disconnect is the investing in media, which will pick up certainly in Q2 and even in the back half. So that's the disconnect between, say, gross margin and operating margins as expected.

So that's all part of the plan for this year. That's where the two will have some deviation.

Rob Dickerson

Okay, great. All right, great. And then just that quick follow-up, what you just touched on, SM&A came in a little bit light in Q1, I think relative to expectations, but it sounds like expectations for the year haven't changed, and then just given timing of shelf resets, what have you you've spoken to, it sounds like that SM&A will then be kind of ramping as we get through the year. Is that right?

Steve Voskuil

Yes, you got it. Yes, expectation for the full year is unchanged, still expect to see double-digit increase in marketing and advertising. We did have some movement between Q1 and Q2. Some of that was delayed non-working media development, which flipped into Q2, and then we've also tuned a little bit more towards spring activations in the working media. But overall, for the full year, no change in expectations.

Rob Dickerson

All right, super. Thank you.

Steve Voskuil

You bet.

Operator

Thank you. Our final question this morning comes from the line of John Baumgartner with Mizuho Securities. Please proceed with your question.

John Baumgartner

Good morning. Thanks for the question.

Kirk Tanner

You've got it. Good morning.

John Baumgartner

Kirk, I just wanted to come back to Premium chocolate. At Investor Day, there was reference to Brookside, and that seemed to be differentiated when it was acquired, but it ended up stalling out on competition. And then in Premium trade-up, the Hershey's Bliss, that was a play on texture, but that faded after a few years.

So I'm curious. When you speak to breakthrough now, is the plan here to essentially sort of out-taste and out-texture competitors in the mass market and reset expectations for the mass market, or is the target moreso new consumers and channels that maybe have not been a traditional focus for Hershey? How do we think about that balance there?

Kirk Tanner

Yes, I think those are really relevant. You know, I think about Premium. I think about Accessible Premium.

Consumers are looking for new experience. That is not—that's not changed. We have three brands that we love for this. One is Brookside, as you mentioned. We'll innovate on Brookside. We're seeing growth in Brookside. We also are investing in Cadbury. Cadbury has a lot of potential in this market. It is a premium experience, and it's accessible as well. And we'll innovate on Cadbury as part of that. So you've got between Brookside and Cadbury, there's really good momentum.

And then, like we talked about, we're building some Accessible Premium on our Hershey's brand, and we'll have new brands that we talk about later in this year for next year that create this great experience for consumers, so Indulgent Premium, really targeted towards Gen Z consumers. So we feel really good about where we're going with our Premium business and being a part of that. But I think there's it's a small part of the business today.

So when you think about pure Premium, it's about 5% of the total category. Now, there's a lot of growth because there's a lot of experience inside Premium, and that's drawing consumers to that. So we are definitely going to be in that space and leading in that space through some of our key brands that we have.

John Baumgartner

Okay. Thank you.

Operator

Thank you. Ladies and gentlemen, that concludes our question and answer session. I'll turn the floor back to Ms. Naughton for any final comments.

Anoori Naughton

Thank you all. We look forward to catching up with many of you over the coming days and weeks.

Operator

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