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The Hershey Company

Second Quarter 2024 Earnings Conference Call
Q&A Session

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Andrew Lazar, *Barclays*

Alexia Howard, *Bernstein Alliance*

Bryan Spillane, *Bank of America*

David Palmer, *Evercore ISI*

Max Gumport, *BNP Paribas*

Tom Palmer, *Citi*

Robert Moskow, *TD Cowen*

Jim Salera, *Stephens Inc.*

Michael Lavery, *Piper Sandler*

Chris Carey, *Wells Fargo Securities*

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PRESENTATION

Operator

Greetings, and welcome to The Hershey Company Second Quarter 2024 Earnings Question-and-Answer Session.

If anyone should require operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Anoori Naughton, Senior Director of Investor Relations. Thank you, Ms Naughton. You may begin.

Anoori Naughton

Good morning everyone. Thank you for joining us today for The Hershey Company's Second 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 provide useful information for investors. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations to the GAAP results are included in this morning's press release.

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

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

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

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

Ken Goldman

Hi. Thank you. Melissa Poole, I think you're probably somewhere in the call. I think you're still there. Thank you for all your help over the years. And Anoori, congrats on your new increased role.

I wanted to ask, within North American Confectionery this quarter, as you mentioned, there was a 6% impact from lower retail inventory and around 2% to 3% from the Halloween shift. You seem confident that these impacts will have no real material effect in the year, which I understand. But my question is, is it unfair for investors to ask if there isn't at least a small red flag underlying this news? I'm just asking because historically in food, de-stockings, delayed orders haven't always been for benign reasons. Sometimes they're, I guess, outgrowths of softer end-user demand. Just curious what gives you confidence there's not a relationship between the delays and demand, which seems to be implied by your commentary.

Michele Buck

Steve, do you want to take that?

Steve Voskuil

Yes, I'd be happy to. I mean as we've seen in the last few years, there's been actually quite a bit of volatility around inventory levels, partly based on the COVID era and supply chain challenges. I think what we're seeing now is a more reversion to the way they spend more traditionally, which is Halloween shifts more in the third quarter than in the second quarter.

The change from prior year—but we have good visibility into our seasonal orders already. Most of those orders are in hand. We've got strong expectations for the season, a lot of retailer collaboration. I think as we look at it, we don't see it as a red flag. We see it as a more reversion to a traditional order pattern.

Ken Goldman

Okay. Thank you for that. Then quickly, I wanted to ask about your recently announced pricing. Can you perhaps give us a sense of which products it covers, the magnitude of the increase? Can you walk us through the degree to which you're comfortable taking this pricing right now, given some elasticity and that you're one of the few categories to be doing so? Thank you.

Michele Buck

Absolutely. As you all know, we have experienced historic cocoa prices for some period of time now. And while we believe the current cocoa price is not sustainable, we do believe that the future prices will be higher levels than we've seen before this kind of recent historic pricing cycle.

Our approach on the pricing has been to take a measured approach. We've absorbed a lot of inflation already, but we do believe we need to pass some of it on. We're seeing the category hold up fairly well in this tougher environment. We think it's historically been very rational. We think it will continue to be.

Overall, we are not going to price the entire portfolio. We do have a robust internal process where we take a lot of factors into consideration to determine what our approach will be, but that's what gives us confidence. We will be getting about 6 to 7 points of net price realization.

At this point, we don't want to go into a lot of the specifics around the pricing. It was very recently announced and so it is still out there being sold in to customers and we think from a competitive perspective, at this point, we shouldn't go into too much more detail.

We are assuming that we'll see historic elasticities, which is a little bit worse than we have seen in our recent price increases, so we think that that's the right approach as we plan for this on the business going forward.

Ken Goldman

Great. Thank you.

Michele Buck

Thanks, Ken.

Operator

Thank you. Our next question comes from the line of Andrew Lazar with Barclays. Please proceed with your question.

Andrew Lazar

Great. Thanks so much. Good morning everybody.

Michele Buck

Good morning.

Steve Voskuil

Good morning.

Andrew Lazar

Michele, I wanted to dig in a little bit more on market share trends in core chocolate. I know share trends have been weaker, I think, than expected, particularly in everyday items, even though Hershey is lapping some share losses in core chocolate last year. I know last year, there was more of a focus on capacity additions, but I guess I thought this year would mark a return to more innovation, more normal levels of sort of in-store commercial activity and such. I'm just trying to get a better understanding of what you think is driving those share losses and maybe when you'd expect to start to see those trends start to inflect, particularly in light of your intent to take some incremental pricing, albeit justified pricing.

Michele Buck

Yes, absolutely. First of all, I'd say we are encouraged that we continue to see category growth in that roughly 2% range. All along as we planned the year, we had expected our second half to be stronger, better than the first half due both to laps as well as the timing of programming. We had also anticipated Q2 to be a weaker takeaway quarter for us than Q1, given the timing of seasons, Reese Caramel and then also some programming shifts where we had some programming that prior year was in Q2, that we shifted to Q3. That said, Q2 was a bit lighter than we anticipated, both from a category perspective in terms of where consumers were shopping and what they were buying, and certainly also from a share perspective.

If I look at the areas of pressure and share that we saw in the quarter, sweets is an area that continued to be strong and certainly, we under-indexed on sweets. As we look at the back half, we have significant incremental innovation with the Shaq launch, with new forms, etc., that we think is really going to help offset that.

We saw particular pressure that hit us at C-store given some of the weakening of those C-store channel trends, as well as an uptick in take-home, in club where we're less developed.

Then finally, of course, the biggest factor that we had spoken about in the past, kind of the continued reduction in key retailer merch, which reverses in the back half. So as we look at the back half, we feel good about the progress that we'll have on sweets.

Certainly, the strength of our programming from an innovation perspective, lapping that merch reduction at the big retailer, we have visibility into resets and we know that we're going to have advantaged position in resets in several key retailers. That's going to be a plus for us.

Also as we look season, second half to first half, we are a big share player at seasons. First half had the weekend Easter with a short season, and we have strong visibility to seasons in the back half, so we know that, that will drive share as well.

Andrew Lazar

Great. And just a quick follow-up on the reduction in retailer merch that's kind of impacted the last couple of quarters that be lapping, I guess, what was like the sort of post mortem on that, if you will? Typically, some of these things kind of the pendulum swings too far maybe in one direction, and then key retailers sort of figure out that it does make sense to have lots of different points of interruption, if you will, across the store because it's such an impulse item.

I'm just curious like any lingering effects that you expect from that, or not so much?

Michele Buck

I would say I think that we're seeing things, I would say, neutralize. I would say that sometimes those things do go to more extremes, and I think they—while they don't revert back to where they were, I do think that there's more neutralization down the middle a bit more.

Andrew Lazar

Thank you.

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.

Steve Voskuil

Good morning.

Michele Buck

Hello.

Alexia Howard

Can we just start with the question on the incentive comp being down. Does that imply that this quarter was something of a disappointment relative to plan, maybe because the timing of the shipments for Halloween or the retailer inventories were run down? What should we expect to have happen on those incentives payments going forward?

Steve Voskuil

Yes. The biggest driver on the incentive side is just tracking with what our expectations are from a full year standpoint. At any quarter, we true up where we're at year-to-date and the outlook for the full year, and that's the benefit that's flowing through into the incentive comp right now.

Alexia Howard

Okay, but the full year is the same, I mean there's only a minor reduction in guidance this year. Obviously, this quarter was a disappointment relative to expectations. I was just trying to—does that mean that the comp sort of bounces back next quarter and normalizes?

Steve Voskuil

No. We wouldn't expect it to bounce back. The way our incentives are structured, it's more than just, say, the headline numbers. There are other goals and objectives underneath there. There's different parts of the portfolio that have different goals. Even though the headline numbers may not change that much, some of the underlying incentive calculations can change. As I say, we true it up every quarter. We're not expecting it to come back. I would look at it as a step down for the second quarter, that will continue to flow through the back half.

Michele Buck

That full year reduction in guidance does have an impact. I mean a meaningful impact on the comp.

Steve Voskuil

That's right.

Alexia Howard

Got it. Okay. Perfect. Then on the gross margin, you mentioned that this quarter, obviously, you're still expecting a 200 basis point decline for the full year. This quarter, you talked about input cost timing favorability. Which input cost was that on? Presumably, it wasn't cocoa because I thought you had that locked in at the end of last year, so just curious about the dynamics on input costs.

Steve Voskuil

There are a couple of things inside there for the second quarter. One is that we did have some movement in mark-to-market of derivatives for our hedging. So it's not a change from the past; we always have for current periods some mark-to-market that flows through the segment reporting. In this case, because of the volatility in commodities, plus the business performance, and as always, the mix of instruments and tools that we use to hedge. We had some favorability there that came through relative to input costs. That's hard to predict, it varies quarter-to-quarter, but that was one of the pieces.

We also made some small changes as part of our ERP system and the way we matched costs to product. That didn't have a big impact on the quarter, but slightly positive as well.

As we look at those pieces, we look at them all as timing based, and so we expect to see those come back in the back half.

Alexia Howard

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

Operator

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

Bryan Spillane

Hi. Thanks, Operator. Good morning everyone.

Michele Buck

Good morning, Bryan.

Bryan Spillane

Hey Michele, I guess a question I think you're going to get or we're all going to be asking over the balance of the year is just consumer receptivity of a price increase and maybe why normal elasticity. I say that in the context of, if you look at your own results, right, it's clearly a value shift, right? Dollar stores, club stores doing well. Convenience stores, not doing as well. Pepsi is cutting prices, right, on Frito because they priced too high; the lift on merchandising wasn't very good. Mondelez is trying to get a $3 price point instead of a $4 price point in front of people's eyes.

So it just seems like a lot of the other snacking peers are adjusting down, maybe, to start stimulating demand. So just how you think about that in the context of trying to take another price increase?

Michele Buck

Certainly, as we put together the pricing, certainly we're experiencing outsized inflation versus, I'd say, some other peers. That said, we do really focus on the consumer.

As we look at historic price elasticities, our recent pricing increases, we have been better than historic elasticity levels, so we are putting in place a more conservative assumption on elasticity than we've seen in the past.

That said, we also really take a surgical approach across the portfolio with a lot of analysis to look at the key price points we need to be at to offer the right range of opportunities for consumers. We've got a pretty significant amount of our portfolio that's under the $3 price point, and we've made choices across the portfolio about where we think those price increases will benefit and work and in some places that we've chosen not to lean in on price.

We also continue to optimize reinvestment and look at the total bundle of value because we know value includes both price point, but also seasons provides value, innovation provides value, and then reinvestment in the right precise price points from a promotional perspective as well. Kind of that holistic approach is what makes us feel good about it.

Bryan Spillane

Okay. Steve, if I could just put one quick follow-up. I think you mentioned—it might have been in the prepared remarks—cocoa and beginning to start laying in a little bit for '25. If we think about the gross margin expectation for this year, for '24, should we assume that you've got visibility or you're pretty much locked in on cocoa, so if it moves around, it's more of a '25 versus 24 factor we should think about?

Steve Voskuil

Yes. For '24 itself, I'd say we're pretty well locked in on cocoa. The only caveat I would say is like we saw this quarter, there's still some potential for some in-quarter mark-to-market movements that could go through this year. But cocoa supply and largest part of the cocoa cost lap for this year.

As we get to next year, of course, as we get further into the year, we'll share more about expectations for next year. It's no surprise current cocoa price is still significantly up versus where they have been in the past. That's, of course, necessitating the price increase that we're talking about.

More to come on '25, but for this year we feel pretty confident about where we're sitting from a commodity basket standpoint.

Bryan Spillane

Okay. Thanks for that, Steve. Thanks, Michele.

Steve Voskuil

You bet.

Michele Buck

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

Great. Good morning. Just a quick follow-up on the previous question on pricing. You mentioned the 6% to 7% price increase. Is that consistent with what you would expect for North America confection in your reported results for '25? Are there timing issues there? I just wanted to check on that.

Then separately, your commentary and guidance seems to imply stabilization or at least some acceleration into the second half in North America confection. I just wanted to get your temperature. What of the stuff that you've talked about, Shaq, new Reese's, the channel expansion that you talked about maybe with club, and then the restoration and merchandising with that key retailer? What about that is the most important to that acceleration?

Steve Voskuil

Sure. On the pricing side, you can't take the 6%, 7% net for the full year for confection. This price increase is going to be phased in. Some parts will be phased in later this year. Some parts will have an impact next year, so don't take that all the way. But we look overall mid-single digits in 2025 is the way to think about it.

Michele Buck

Yes. I guess if I was going to zero in on some of the biggest second half drivers, certainly, the lap on the large retailer merch and resets is significant. I would put that first and foremost, and we have really good visibility into what that should look like.

Secondly, the impact of season, that differential. Also large and strong visibility into the sell-in for those seasons. Then the sweets innovation is also one of the big drivers. And then lastly, I'd say the continued salty—we really haven't talked much about salty, but the continued salty acceleration, we have seen the momentum shift on that business. Certainly, Dot's has remained strong, but SkinnyPop is regaining momentum, and we expect to continue to see that in the back half.

David Palmer

Great. That's helpful. I'll pass it on. Thank you.

Steve Voskuil

Thank you.

Operator

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

Max Gumport

Hey, thanks for the question. In the prepared remarks, you discussed consumers pulling back on discretionary spending and C-store weakness. I was hoping to get a bit more color on what you're seeing there, particularly around your remark about seeing it really pick up over the last two months, and then also a bit more color on how long you expect this dynamic may persist. Thank you.

Michele Buck

Yes. I think in times where consumers are forced to make choices and pull back on some of their discretionary spending, they're even more focused on getting the best value that they can and so shifting where they are making some of their purchases, where normally they may not go out of their way to do that, I think during those times this is something they're doing and I think that's why we're seeing some of the shift away from convenience store into more mass, dollar, etc. I think we've started to see that the first part of this year. I think I would expect to see that as we continue through the year.

We do have confidence that we can continue to shift and offer the right offerings across all those channels. One of our strengths in our business is our ability to do that. And certainly, as we lap that, we will see that stabilize and/or grow.

Max Gumport

Thanks. Then with regard to the commentary of historic elasticity expected with the price increase on the North America confection business, is that historic elasticity right around a 1 or 0.9, and then just a bit more color on what's giving you the confidence it will be right around that level? Thank you.

Michele Buck

Yes, you're right. It is right around the 1. Based on the model that we use and what data points we have, we would say that we feel pretty good that that's a good estimate for now. We are building in some of that conservatism versus where we've been in the past and that's really for price in isolation. There are other levers that can help to offset that relative to things like increased innovation, seasons, improvements in activity at customers, etc., etc.

Max Gumport

Thanks. I'll pass it on.

Operator

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

Tom Palmer

Good morning and thanks for the question. You mentioned your view that current cocoa prices are not sustainable. I just wanted to understand in the context of the round of pricing that you announced how you're thinking about covering longer-term pricing, or sorry, longer-term inflation. Does this round of pricing kind of cover your view of where cocoa prices might migrate longer term?

Michele Buck

Our strategy regarding pricing to cover commodities hasn't changed. That remains in place. But as we've discussed before, we don't view that as totally linear, as in when the price goes up, there's an automatic coverage. So I'd start by saying if we look at where prices have already been and the fact that we've mentioned that we have some coverage for '25, it would be a fair assumption to assume that this pricing will not fully cover inflation.

Steve, anything you want to add to that?

Steve Voskuil

No, that's right. We continue to manage pricing as one of many levers. We're also looking at cost reduction productivity. We're looking at formulation. We're looking at all kinds of levers that we've talked about in the past to manage cocoa price as still very volatile. And as I said before, given even where it is today—and it's down from where it was earlier this year—if we kind of took current prices and flash ahead to the future, it's pretty still a very significant year-over-year installation piece.

This pricing action will help. It's not by itself going to mean that we're already at long term, covering the total cost, but it's a good first step. You can expect we'll take other steps across all the levers that we have in the basket to address.

Michele Buck

We'll continue to monitor cocoa pricing. Certainly, we know there's been some positive news recently, but we also believe there won't be any significant impact in pricing until there's much greater visibility in the fall harvest, which is a bit of time from now.

Tom Palmer

Okay. Thanks for that detail. Then just any help kind of thinking about the puts and takes as we think about the third quarter versus the fourth quarter in terms of maybe some of the earnings cadence. Obviously, shipment timing is a big factor, but maybe any other help on kind of the progression of gross margin or underlying sales trends?

Steve Voskuil

Yes. It's a little more tricky, probably go quarter-by-quarter. Maybe if I just say, as we look across the back half versus the front half, if you look at the back half, we're going to expect to see more AAA savings. We've been saying most of that's back half loaded. We'll see some of that come through and some of that does impact gross profit. We'll have our regular CI productivity that I think we said on the earlier call is about $140 million target for the full year. We're right on track for that, but there's more of that to come in the back half than we saw in the first half. We'll also be lapping some incremental costs that we had in the back half of last year. Some of that was core-related warehousing and so forth.

Most of the timing items we would expect to reverse in Q3, so I think we'll see more of those benefits reverse in Q3, but the others will continue over the back half.

On the other side, as I think about back half gross margin, we'll have more commodity inflation. We'll have more seasons mix, naturally, coming in and that seasons mix is slightly dilutive to margin. We'll have a little bit more sweets growth, and sweets growth, also a little bit dilutive from a margin standpoint, and the reversal of some of the mark-to-market and other timing items that we talked about, again, mostly in Q3.

Tom Palmer

Okay. Thank you for that.

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. I just wanted to know if you could kind of elaborate on your thinking for marketing support. There was a big increase last year and I think the plan was for another increase this year. Where do you stand on how much marketing is going to increase this year? Has anything changed? As you get into 2025, because of these incremental costs that you're going to have to take into account, how do you think about marketing relative to sales into '25? Thanks.

Michele Buck

Yes. We don't see a significant change in our marketing support versus what we had planned. As we look to this year, still up in line with our sales growth.

Robert Moskow

And then this year?

Michele Buck

Yes, and as we think about next year...

Steve Voskuil

Next year, I'd expect also to match roughly in line with sales. We're not far enough down all of our game planning for next year. We'll give more details again later in the year, but I think from a planning standpoint, assume that it's going to at least match what we're doing from a sales standpoint.

Robert Moskow

Okay, great. Thank you.

Steve Voskuil

You bet.

Operator

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

James Salera

Good morning, guys. Thanks for taking our question. Michele, in the prepared remarks, you talked about in salty strong trends with Dot's and then kind of improvement for SkinnyPop in the back half of the year. But the salty category as a whole has seen some pressure, and obviously, more promotional activity probably coming into the category. Can you maybe walk through the puts and takes on what gives you the confidence for Dot's maintaining momentum in the back half of the year and then SkinnyPop reaccelerating?

Michele Buck

Yes, absolutely. Certainly we've continued to see tremendous growth on Dot's. I'd start by saying on Dot's, we continue to have a lot of more upside on expanding our depths of distribution. There are still distribution opportunities, whether it's by geography, whether it is depth within a store space on shelf, given velocities, and we also have continued strong investments in Dot's relative to both marketing support and then also innovation relative to pack types and flavors. One example, the recent launch of Parmesan Garlic. We continue to just have all the marketing levers still present opportunity on Dot's because that brand has really still been in the kind of introductory phase.

As I think about popcorn, I would say, yes, there's been some pressure on the category. We are seeing some stabilization as we lap some of the consumer concerns in that category. We continue to feel good about the stepped-up innovation opportunities on SkinnyPop as well relative to flavor, pack size and also marketing investments which we have dialed up more recently as well in combination with lapping some of the softness from last year.

James Salera

Okay. That's helpful. Maybe to drill down a little bit on the ready-to-eat popcorn, is part of the softness there just consumer preference for like trading out or opting for another substitute good instead of the popcorn? Or is there something particular with that cohort where the consumption trends are a little bit lighter there relative to eat, something like pretzels with Dot's?

Michele Buck

Yes. I mean what we uncovered was the satiety factor was impacting total value proposition. That's what we started to see some softness on last second quarter, and we're now at a point where we're really starting to lap that and see it stabilize as we head through the back half of the year.

James Salera

Great. Thanks for the color. I'll hop back in the queue.

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.

Michele Buck

Good morning.

Steve Voskuil

Good morning.

Michael Lavery

You touched on having some coverage for 2025 for cocoa. I'd imagine you don't want to be too specific, but more than halfway through the year now, more than halfway through 2024 and with at least sort of an average maybe of kind of typically looking 12 months ahead, would we estimate or assume reasonably that you're kind of half covered for the year? I guess part of the question is, how much are you maybe looking to be patient for better rates, or kind of more focused on securing supply? Maybe just a sense of how kind of that securing product for 2025 is progressing.

Related to that, maybe, I know you would ordinarily give an update in February when you report 4Q on the next calendar year. Is there any chance later this fall when you've got plans put together you might give a little preview sooner than normal, or should we expect just the typical cycle in terms of that news?

Steve Voskuil

Sure. On the specifics on hedging, you're right, I can't really give color around how far out we're hedged for 2025. As I said, our policy hasn't changed. We've got some guardrails. It's fair to assume we've got some level of coverage in 2025, but we're still watching the market and the volatility. And so we'll continue to, through our normal process monitor that and take coverage as appropriate.

As we get later in the year, as our visibility increases, I would hope to be able to provide a little bit more color. Again, a lot will depend on, as we sit here, for example, on the third quarter call what we see and how much visibility we do have into cocoa and price some other variables as well. That would be the hope.

We'll see how we're sitting when we get there, but we'd love to be able to provide more color once we have the visibility we can give you to rely on.

Michael Lavery

Okay. That's helpful. Just as far as, obviously, the cocoa cost pressure is fairly well known, did that do anything to influence how you might think about portfolio optimization? Maybe diversifying a little bit more away from chocolate specifically, or any other way that it might impact how you think about managing the portfolio.

Michele Buck

I mean we're always looking at the best portfolio to meet consumer needs. We love the categories that we're in and as you know, we've made decisions to expand and leverage our core capabilities that are so strong in snacking more broadly across snacking, particularly with our launch into salty a few years ago.

We also look across even our chocolate portfolio and try and optimize our demand creation. We have certain parts of the portfolio that have more cocoa and chocolate in certain parts, like cookies and cream, that may have others. Our goal is always to go where the consumer is.

Michael Lavery

Okay. That’s helpful. Thanks so much.

Steve Voskuil

Thank you.

Operator

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

Chris Carey

Hey, good morning. Thank you for the question. I just have one follow-up on levers, and then a clarification on the back half.

Just regarding the levers, in the prepared remarks, there was a statement that the pricing was a first step to cover inflation. I couldn't tell if the implication was that you're assessing the pricing in-market before perhaps taking other pricing or pricing is just one of your many tools in the toolkit to manage inflation. Then just regarding the toolkit, where is the most effort being put right now as far as levers to offset inflation? Whether that's product reformulation, price pack, incremental productivity, maybe even have some tax savings. It doesn't feel like marketing will be a key source of savings. You've had time to kind of prepare for this. Where is a lot of that work going right now?

Then—sorry for the long question—but just in the back half of the year, the 4 points visibility seems about a point is seasonal. Is the rest a result of the innovation, or is there any of the 6-point kind of destock in Q2 coming back in the back half? Thanks for all that.

Steve Voskuil

Sure. On the first part of your question, this is really just our normal strategy. We're always looking at the market. We're looking at cost. We're looking at pricing. The comments weren't intended to say, "Hey, this is a tripwire pricing and we're waiting just—we will always be looking at pricing, and we'll be looking at all the levers, so just to address that.

In terms of levers, I would say we're focused on all of that, but we've talked about in the past, PPA is a big one. We want to make sure that we are, as Michele said earlier, bringing value to consumers, going where they are. We've got a lot of initiatives underway, some of which are contemplated in this price increase, but other things that we're working in collaboration with retailers to bring to bear in the next couple of years. That continues to be a focus.

Then things like the transformation program to drive cost savings all through the P&L, also one of the pieces, one of the levers that we can use in driving production efficiency off the back of some of those technology investments. So, a wide span of tools, but those are ones that are getting a lot of attention.

Then on the back half, your question was— can I just ask you to repeat that last piece?

Chris Carey

The question is, basically there's roughly 4 points in the back half of shipment visibility highlighted in the prepared remarks. I can get to about a point of that being seasonal. The rest of that, is that incremental innovation or just other proactive initiatives you have, or is any of that this 6-point retail reduction in Q2? I couldn't tell because there was a comment about retail inventory should be in line with current levels into the full year, so I didn't know if you were getting some of that back, or the rest of the shipment visibility into other things.

Steve Voskuil

Sure. The back half guidance doesn't require any increase in retailer inventory. So like I said, we're at a level now that we might have expected to be at; the end of the year would be typical, but we're not expecting any increase in retailer inventory.

As far as some of those drivers, we touched on some of them earlier for the back half and you have as well. We will have more innovation relative to the first half, season will play a role. We'll have some easier laps in a couple of businesses we mentioned in the prepared remarks. International will have some easier laps, salty as well given the ERP implementation there in the fourth quarter of last year. Those are the things that give us confidence in what we can do from a business standpoint in the back half.

Chris Carey

Okay. Great, thank you.

Operator

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

Rob Dickerson

Great. Thanks so much. Maybe just a quick question for Steve. Just in terms of those levers, right, clearly, you've outlined the $700 million in gross savings; I think it's through '26. I'm just curious, kind of given the clear elevated cocoa cost situation, is there a little bit more flex in those savings maybe to help offset some of those costs? Or do you just kind of preplan that and say, “Well, there are reinvestment needs that have already been earmarked and we'll see what we can do,” but not really. That's the first question.

Steve Voskuil

Yes. I'll say we're very focused on the cost side, absolutely. As we look through the transformation work, as we look through the ongoing productivity work and even now moving past ERP and some of the savings we can leverage off the back of that, all of those things are helping us focus on costs to help make some impact on what we can do from a cost savings standpoint. And as we said, we're expecting a net 300 savings over that period, so it's not 300 then reinvest portions. We want 300 net after reinvestment to hit the P&L.

Rob Dickerson

Yes. I guess I would just say like, could you take the 300 to 350 because maybe the cost situation changed? I mean it sounds like it’s not much… Okay.

Steve Voskuil

Sure. Yes. Well, I would just say it’s not like we went pencils down on cost savings once we put that program in place. We continue to look all the time for cost savings, and believe me all the pressure is up to find more.

Rob Dickerson

Yes. Fair enough. Okay. Cool. Then I guess, Michele, just kind of a question around some of this kind of ongoing discretionary spend softness on chocolate. I kind of ask because, I mean, clearly, we've seen a tremendous and kind of ongoing growth on the sweets side of the business which, I guess, one could argue it's still somewhat discretionary and clearly still a much smaller piece of the U.S. broader confection market.

Just first, maybe why do you think consumers have maybe increasingly shifted to kind of non-chocolate confection, one? And then two, maybe how broad is the Shaq-A-Licious launch expected to be as we get through the back half of the year? Then three, could there be any acquisition opportunities that you would maybe dream of? You don't have to name names, but yes, it could be an area of interest. That's all. Thanks.

Michele Buck

Yes. First of all I'd say chocolate is still growing and the non-chocolate growth that we're seeing doesn't appear to be sourcing much from chocolate. We do believe that there's growth in that area due to some of the kind of the emotional factors around fun, stress relief, and frankly, there's been a lot of news and innovation in that segment. So in addition to value playing a role, there are many other main drivers, I would say, that do make sweets appealing, and it's one of the reasons that we've really ramped up our innovation in that space with Shaq, with the launch of a new form in the back half, and continued investment in those brands.

Rob Dickerson

Fair enough. Thank you so much.

Michele Buck

Thanks.

Steve Voskuil

Thank you.

Operator

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

Stephen Powers

Hey, good morning. Thank you so much.

Michele Buck

Good morning.

Stephen Powers

I know we're late in the call. I wanted to ask maybe kind of a wrap-up and longer-term question. A little over a year ago you obviously outlined a number of initiatives to drive the next phase of long-term growth for the company at your Investor Day. A lot of news at that time and discussion around upgraded commercial capabilities, digital network and supply chain optimization, workforce planning, etc. A lot of that, you've touched upon it in bits and pieces today as well. But I guess, when you step back, just given all the volatility you've experienced in the time since that day and kind of what you see ahead over the next 12-plus months, how would you assess your ability to keep pace with the cadence of change and improvement that you had envisioned during that Investor Day? Have you been able to largely keep pace amidst all this noise, or are there areas where the honest assessment is you'll have to do some catch-up when the demand and cost environment hopefully stabilizes?

Michele Buck

Well, I would say we have continued to drive really hard on all of those capabilities around digital workforce planning, etc. Steve referenced the transformation program. That transformation program includes a lot of those components and we have continued to make progress on that. So, starting with the completion of S/4, which we were able to successfully do, that is now behind us. That was the foundation. Many of the workstreams that enable us to deliver the transformation cost savings that we are on track to deliver involve technology and automation and digital solutions to enable that. Those things are continuing to move ahead. So I'd say it's kind of an ‘and’, which is dealing with the current pressured environment and continuing to drive ahead on all of those initiatives that are part of the transformation.

Stephen Powers

Okay. Great. I appreciate it. Thank you.

Operator

There are no further questions at this time. I’d like to turn the floor over to Ms Naughton for closing comments.

Anoori Naughton

Thank you all so much for joining us this morning. We look forward to catching up with you in the coming days and weeks. Have a great rest of your day.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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