



The Hershey Company

**Fourth Quarter and Full Year 2023 Earnings Conference Call
(Q&A Session)**

February 8, 2024

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*

Ken Goldman, *JPMorgan*

Max Gumpert, *BNP Paribas*

Bryan Spillane, *Bank of America*

Alexia Howard, *Bernstein Alliance*

Pamela Kaufman, *Morgan Stanley*

Robert Moskow, *TD Cowen*

Michael Lavery, *Piper Sandler*

Tom Palmer, *Citi*

Chris Carey, *Wells Fargo Securities*

Jim Salera, *Stephens Inc.*

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

Operator

Greetings, and welcome to The Hershey Company Fourth Quarter 2023 Question-and-Answer Session.

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

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

Melissa Poole

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

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

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

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

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

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

Operator

Thank you. (Operator Instructions)

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

Andrew Lazar

Great, thanks so much. Good morning, everybody.

Michele Buck

Good morning, Andrew.

Steve Voskuil

Good morning.

Andrew Lazar

Maybe, to start off, your guidance for '24 calls for about 2% to 3% net sales growth, with volume flat to slightly down, so it implies about a 3-point year-over-year benefit from price, which would seem to be mostly

carryover-related from actions taken last year. So, I guess my question is does the current outlook embed any additional pricing actions this year to address the currently elevated cocoa costs, and if not, I guess, if Hershey were to take additional pricing actions, would those benefit '24, or would the typical timing lag and the complexity of the system's transition, would that likely be more of a '25 benefit at this stage?

Michele Buck

Hey, Andrew, let me talk a little bit about our pricing approach and strategy, and then Steve will go into the numbers.

You know, it's a dynamic environment out there and we are taking a measured approach given historic inflation. As you know, we can't talk about future pricing, but I do want to be very clear that there's no change to our pricing strategy and our commitment to use pricing to cover inflation and to support the investments that we think are critical to drive the business. So, given where cocoa prices are, we will be using every tool in our toolbox, including pricing, as a way to manage the business.

Steve, do you want to talk about some more of the specifics?

Steve Voskuil

Yes, the way you laid it out, Andrew, is correct. The pricing that we're counting on, that 3% or so, a lot of it's carryover, some of it from '22, Easter and Valentine's Day, some we took mid-last year on everyday chocolate, and then a small increase we announced earlier this year on grocery items and food service. And you're right, when we think about the impact of future price increase, we're really challenged in the first half of this year just because of the ERP implementation. Like you said, it puts some limitations on what we can do. As you can imagine, enormous collaboration between us and retailers to execute that transformation, and so we're trying to keep things very stable during that period, and so further price increases, should they come, would benefit more the back half of the year, and probably more so in '25.

Andrew Lazar

Got it, thanks for that. Then, the EPS in '24 is expected to be sort of flat for the year. There's, obviously, a big discrepancy between what you're looking for in the first half versus the second half in terms of EPS growth. I guess I'm trying to get a sense of how much of this anticipated improvement is anticipated improvement in the consumer environment versus what you have maybe more visibility and control over with things such as timing of your planned system spending and timing of cost saves and productivity. I'm just trying to get a sense of the visibility to the swing, if you will, in EPS growth between the first half and second half. Thanks so much.

Steve Voskuil

Sure. Yes, it's not banking on cocoa relief and it's not banking on some kind of surge in the consumer, or, really, even a surge in the base business. The biggest factors, there's really two things driving it.

One is the laps from last year. As you know, we started out really strong in the first quarter last year and then ran into things like softer Salty category growth in popcorn, the ERP implementation in Salty, and then the change in strategy at a key retailer. So, as we think about the laps of those, that's one factor that impacts this profile, because the laps get much easier in the back half.

Then, the second thing, that you mentioned, Andrew, are things in our control. The savings on the agility and automation initiative will get more traction in the back half again, because the ERP places some limitations there. The same with productivity in the manufacturing areas, back-half loaded. So, those will

accumulate as we turn the corner from the first half and pivot from the ERP sort of period of stability to a period of driving impacts against those savings initiatives.

So, it's really laps, combined with the things in our control.

Andrew Lazar

Thank you so much.

Operator

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

Ken Goldman

Hi, good morning. Thank you. I wanted to ask a little bit—you know, you have more innovation coming this year, you have more capacity, you're battling an elasticity situation that, I think it's fair to say, is higher than many people expected, but your media spending is only being increased by the same amount as sales growth. I realize you're focusing on some key items a little bit more and you're kind of rebalancing some of that, but I'm just trying to get a sense of the risk of some of your more flanker-type brands if media is pulled away from them—if that's the impression I'm getting, if that's the right one—and how really to think about your decision to maybe not raise media spending a little bit more than sales growth, to kind of make sure that you're battling elasticity in a way that's appropriate?

Michele Buck

Yes, thanks, Ken. As you know, we are big believers, and our business model relies on media as a key lever to continue to drive our brands over the long time. We're constantly—we feel good about media going up in line with sales. We also constantly look to try to make those dollars work harder and harder for us, and we've made some pivots in terms of some of our targeting, that are actually going to give us expanded reach levels that will be greater than sales, so the impact we will get from that media will be more than the dollar increase, but we will constantly evaluate that, and if we are seeing even better than we expected, we'll revisit decisions and decide if we should be spending more, as we always do during the year.

Ken Goldman

Thanks, and then, quickly, it's not often we see kind of a venerable, established category, like popcorn, maybe slumping to this degree. Not really thinking about share gains or losses for Hershey, in particular, but what do you see happening most recently in popcorn and what do you think needs to happen for the category to rebound?

Michele Buck

Yes, I mean, I think what we saw this year was we did start to see some pressure in the category related to value, the fact that popcorn wasn't quite—have as much satiety as some other snacks, and we saw some private label entries also get some focus. So, I think what needs to happen—and then compounded by that, in the back half of the year—we are the number one or number two player, depending on the timeframe, in the category—and in the back half of the year, around our ERP implementation, we pulled back on merchandising and advertising support to make sure that we didn't have issues with supply, so that certainly had an impact, as well.

As we've gone into this year, what we think needs to happen, we have done. We have made some improvements in the value proposition, have introduced a value-sized, a bigger pack, we've sharpened some of our merchandising price points, and also increased merchandising, and we are back to a much heavier investment in advertising and innovation that we've had over time. We think we'll continue to see some of that lap through the first five months of the year and then really rebound to nice growth and market share gains in the back half.

Operator

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

Max Gumport

Hi, and thanks for the questions. With regard to cocoa prices, you've previously talked about how there's a divergence between fundamentals and current market prices. I'm assuming you're looking at underlying supply/demand and the stocks-to-grinding ratio, but I'm curious for an update on that front and how that informs your visibility into cocoa for 2024. Thanks.

Steve Voskuil

Sure. Yes, we look at a variety of things, as you can imagine, I'll say the fundamentals, and when I say "look at," we have an internal team of experts in this domain, but we also have outside folks who also give us points of view, to make sure we're not myopic in the way we look at the market and what's happening. But, we look at the fundamentals, we looking grind data, we look at crop yields, we look at weather, we look at all of those fundamentals, and, of course, demand, but at the same time there's a lot of financial activity, transactional sort of activity and speculation that overlays the fundamentals. It's been difficult, certainly, to untangle those two pieces. That's part of the reason that we have a hedging program, is that we're not here to try to outsmart the market and beat the speculators, per say, we want to make sure that we have visibility and have the opportunity to reduce volatility, to the extent we can, in the P&L. But, it's certainly a very dynamic market.

Operator

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

Bryan Spillane

Thanks, Operator. Good morning, everyone.

Steve Voskuil

Good morning.

Michele Buck

Good morning.

Bryan Spillane

I've got two questions, and the first one is just—I don't know if it was actually in the press release or not, but, Steve, have you given us a sense of just what your overall inflation is, or maybe what cocoa inflation is? I've gotten that question a few times this morning. So, what's the inflation rate, I guess, in the guide?

Steve Voskuil

Sure. If you look at it, kind of break it into two pieces, I'll just say commodities, which obviously, cocoa and sugar are the two most inflationary, low-double-digit inflation. If you look at other parts of the P&L, it's more mid-single-digit. So, if you sort of average it over everything, it's high-single-digit.

Bryan Spillane

Okay, and that's pretty well locked in, right? I'm assuming that you've got coverage on commodities for the year. Is that a good expectation?

Steve Voskuil

Yes, that's correct.

Bryan Spillane

Okay, cool. Then, Michele, just, I guess, a bigger question, or a broader question. It's just on the cost savings, the incremental savings this morning. Can you talk a little bit about maybe how you came—how, as an organization, you came to that? I think the question that some folks are asking this morning is just, you know, are the cost savings a reaction, right, to inflation, you're trying to preserve as much earnings as you can, which maybe implies cutting too much. You've got a lot of stuff going on and the ERP system transition. Like, is it really burdening the organization too much to try to focus so much on costs when there's so much other stuff going on? So, just your perspective on that, I think, would be helpful for folks.

Michele Buck

Yes, sure. I would say a year to 18 months ago, we had started working on some initiatives that we thought could create some real opportunity and value for the Company, and executing those was dependent on two things. It was dependent on us getting through the S/4 implementation, which, as you know, we will be through Q2 of this year, and it was also dependent on us doing the unification of our Salty Snacks business, taking those disparate acquisitions we had and combining them together, which, obviously, we did this past year, and also put in place S/4 across that platform, across that business unit. That, then, can become an accelerator for us to really go after what we saw as some opportunities, both in terms of creating greater end-to-end connectivity and also using technology for automation and efficiency. So, this is really where we expected that we would be. Certainly, with some of the pressure on cocoa prices, we accelerated that work a bit versus our original timeline, but the work was planned and underway accordingly. We're trying to be very choiceful about where are the choices that we are making across those initiatives, and, certainly, making sure that a lot of that implementation won't happen till post S/4, till we get through the implementation. So, really, measuring out when we do what to match with the organizational capacity.

Steve, anything you would add to that?

Steve Voskuil

No. We're excited, we're going to get through ERP, we'll have 95% of our business all on one platform, and the opportunities that will unlock, and then, as Michele said, thinking ahead to things like integrated demand

planning and bringing more automation to supply chain, these were things we had in the vision before, but now we're much closer to being able to make them realized.

Bryan Spillane

Steve, you may be the first person that used "excited" and "ERP" in the same sentence.

Steve Voskuil

(Inaudible) (cross talking)

Bryan Spillane

Look forward to seeing you guys in Florida.

Steve Voskuil

Yes.

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.

Michele Buck

Good morning.

Alexia Howard

Can I ask about—I'm honing in on the chocolate category in the U.S. You've, obviously, seen some nice recovery in volume and market share over the last two or three months, it's been fairly sharp. Can you talk about what the main drivers of that are? I imagine that innovation with the Reese's Caramel's launch might be a piece of that. Just give us some idea of what's driving that and whether that trend is expected to continue.

Michele Buck

Yes, absolutely. I'd say there are two things that have really created some nice momentum on the business.

One was we saw consumers have a huge affinity to the seasonal traditions and we had very strong growth in the category in both Halloween and Holiday, and we also won share, so that was certainly a key driver, and, as you mentioned, we had talked about earlier this year the opportunity for us in '24 to really dial up innovation. We had a lagged year in '23. Our innovation for '24 is up about a third versus where it was in '23, and we're really excited that we have some big innovations. Reese's Caramel, we believe will be a very nice addition, and that's doing well in Q4, it continues to, will be featured on the Super Bowl, so you can look for that, as well, and then we have some exciting Sweets innovation later in the year.

Alexia Howard

Perfect, and just continuing on the theme of innovation, you mentioned a third increase. Are you able to quantify where you're at in terms of percentage of sales from new products introduced over the last three years? I imagine that that would have come down significantly since the pandemic started.

Michele Buck

We are up about 35% higher in terms of innovation versus prior year, and we are up slightly versus pre-pandemic, as well. I think we've chosen not to talk about innovation as a percent of net sales.

Alexia Howard

Okay, perfect. I'll pass it on. Thank you.

Operator

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

Pamela Kaufman

Hi, good morning.

Michele Buck

Good morning.

Steve Voskuil

Good morning.

Pamela Kaufman

A question on your capacity expansion plans. I think you've previously mentioned you had a 15% increase in capacity coming online this year, can you just give an update on that, and do your cost savings initiatives impact these plans at all, and, then, maybe you can remind us what products the capacity is going to be used for?

Michele Buck

I'll cover some of that and let Steve cover some of it.

We've continued to invest in capacity in brands and businesses across the portfolio that have growth and opportunity ahead. Over the past couple of years, we've focused on Reese's—we were short on capacity—so that we could fulfill consumer demand. Then, the other big area of focus we had was on the Gummies side of the business, in Sweets, and the first part of this year, we complete and have capacity coming online for that business, that we will be able to leverage to better participate in that segment in the back half of the year.

Steve?

Steve Voskuil

Yes, the only thing I would add is everything is on track, we're proceeding per plan, and the cost savings project that we talked about doesn't have any direct impact on those plans, other than, as we look to the future, more opportunities to automate and create some agility in supply chain beyond those projects.

Pamela Kaufman

Great, thank you. In the prepared remarks, you pointed to 200 basis points of gross margin contraction this year. Can you walk us through how you're thinking about the puts and takes around gross margins in '24, and if you could give some color on the cadence of gross margin progression this year?

Steve Voskuil

Sure. Yes, I'll give the highlights and—the prepared remarks actually have a good section on that, so whatever I miss here, refer back to that, but overall, on a full-year basis, down 200 basis points, as you said. We're going to see more of that in the first half than the second half, for some of the reasons we talked about even earlier in this Q&A session. We will have in the second half higher commodity inflation, but in the second half, we'll begin to see more benefits from continuous improvements on manufacturing cost savings, the agility in automation program that we talked about will kick into more gear in the second half, as we get past the ERP process, and then we're lapping some one-time costs in the back half related to Salty and the ERP program. So, those laps, plus the accumulated benefits that pick up on the savings side, are what drive the biggest inflection from a gross margin standpoint, as we look at the second half having less drag than the first half.

Pamela Kaufman

Great, thank you, and just one more quick question. How are you thinking about the outlook for cocoa prices from here and how is that influencing your hedging strategy?

Steve Voskuil

Yes, our hedging strategy has not changed, our kind of principles around how we manage commodities hasn't changed, but it's a dynamic market and we're not going to comment too much about future pricing. Our business, as Michele said, we've seen cycles like this before. We've got a lot of tools at our disposal to manage the impact of cocoa, and we plan to use all of those.

Pamela Kaufman

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. I guess I have two questions. The first is market share assumptions in the U.S. for 2024, is it fair to say that you think you can grow share in Confectionary? The second thing, on the pricing strategy, Michele, nothing's changed, but this is a different strategy than what you've had in the past. The idea is to kind of squeeze out the pricing and maybe more frequently and in smaller increments, and, I guess, is that

still possible to do in an environment like this, when the input costs spike so significantly? It sounds like you're doing it this year, but is it more difficult to execute when you see this much volatility in the inputs or not?

Michele Buck

Okay. So, I'll take the first question first relative to market share. We expect to see sequential improvement as we go throughout the year. The first half will be pressured by a shorter Easter, Easter comes much earlier this year, and also we will have about roughly five months in the first half of lapping the reduced merchandising and distribution at that one key retailer, and we know from this past year the impact of that was about two points in total, we offset about one point of that on a takeaway basis, so that will pressure share. In the second half, we then are past those laps of the shorter Easter and the retail merch, and so we expect to see sequential improvement and to end the year in a much better place than where we're starting.

As I think about our pricing strategy, I'd say what is consistent is our goal to cover inflation with price over time. Within that, how exactly we do that, relative to smaller, shorter, more frequent, more bigger, you know, the timing and the magnitude, to me, are heavily influenced by other factors, such as where our input costs and general inflation are. So, I think that, yes, overall, we have a strategy to expand gross margins to price to cover inflation and allow reinvestment, that hasn't changed, but how we go about doing that will be a bit different. We're also very much focused—price/pack architecture is an opportunity, you know, all the tools in the lever.

Robert Moskow

Got it. So, you could be flexible, depending on the cost conditions.

Michele Buck

Yes.

Robert Moskow

Yes, okay. Thank you so much.

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, and good morning.

Michele Buck

Good morning.

Michael Lavery

I just wanted to come back to Easter and the ERP transition. You'd mentioned with Salty, 4Q, how you cut back on some of the merchandising, and even, I think, a little bit of marketing spend. You mentioned Easter being a little bit shorter, but is there sort of an amplified headwind from the timing that—you know, would

you doing a similar approach to promotions or marketing in conjunction with the transition to dial that back a little bit, or is there a reason that it wouldn't apply the same way as the Salty transition did?

Steve Voskuil

Yes, we're not applying the same approach we did with Salty in that respect. We'll still be building inventory in the first quarter, we'll still be draining that inventory in the second quarter, just to de-risk the transition, but we are not going the extra step of freezing all activity in-store, merchandising, promotion. We have full merchandising and promotion plans, those are going to proceed. They were planned well in advance and we have full confidence in being able to support them. So, that is the difference.

Michele Buck

Yes, we got really good learning through the Salty, and this was our plan, to do Mexico first, then Salty, and then, you know, the mother ship, and we got really good learning that we've been able to just incorporate and fine-tune along the way. We also don't have the complexity of quite as many different systems that we have to bring together with our business, as we did with all of the acquisitions.

Michael Lavery

Okay, that's great color, and, then, can you just give us a sense on elasticities, maybe both how they currently look versus history and then, also, what your assumptions are in the guidance as far as how they might progress over the rest of the year?

Michele Buck

Yes. So, we're expecting our elasticities to be similar to the historic levels. That's our key assumption.

Michael Lavery

Okay, great. Thanks so much.

Operator

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

Tom Palmer

Good morning. Thanks for the questions. Maybe, just first off, on the pull-forward of the productivity and cost savings, I just wanted to follow up from the earlier question. Are there new-found savings embedded in this or are these largely initiatives that would have been done in future years? Just maybe clarify that piece of it.

Steve Vaskuil

Sure. When we did our Investor Conference back in March, we talked about incremental productivity savings in the manufacturing area. So, this is incremental to that, to start with, this is beyond that. As Michele said, in the longer term view, we saw these as opportunities, but it's new opportunities really built off the back of some of the technology now coming to fruition, is the way to think about it.

Michele Buck

And we've really beefed up, and are beefing up, our capabilities in technology. We hired a CDTO in the fourth quarter, who's really bringing us capability and further expanding what we can do as a company, we believe.

Tom Palmer

Okay, thank you. I know that some questions have kind of danced around this, but maybe I'll be a little more direct. Just on pricing, what exactly is flowing through as we think about '24? So, kind of what pieces of the portfolio are being touched? Are there incremental pricing actions embedded at all in guidance, or kind of what we start out in the first quarter as the run rate is kind of the full magnitude?

Steve Voskuil

Sure, yes. We have sort of three pricing components that are embedded into the outlook. I touched on a couple of these earlier. There's the Easter/Valentine's Day action that was taken in '22, that's reflected this year; there's everyday chocolate increase, that we executed mid-last year, that's reflected; and then there is a small new price increase on some grocery and food service items, that really went just into effect this month, so that's happening right now. Those are the only assumptions that are embedded in the outlook right now.

Tom Palmer

Great, thank you.

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. So, just a few follow-ups, if I could. Just on gross margin, just to kind of put a fine point on this one, do you expect expansion in the back half of the year or are you saying that it's just going to be less contraction than in the front half?

Steve Voskuil

Yes, it's going to be less contraction. Yes, the contraction will be more significant in the first half, less in the back half.

Chris Carey

Okay, understood, that's what I thought, thanks. Then, just on a segment basis, there's this dynamic where most of the inflation clearly is hitting you on the Confection side, but probably some of the more fundamental category dynamics are more pressured on the Snack side, clearly, because you're expecting low algorithm for next year, and so just from a margin dynamic between the segments, themselves, is there a dynamic where—and this quarter is so hard to assess with Snacks, because of ERP, but will Snacks require more investment? In a strange way, you'll have more margin contraction than what we're going to see in Confection. Is there any way you can just kind of frame investment needs and sort of fundamental margin pressure in Snacks versus just, I guess, inflationary-driven—you know, inflation that we would see in Confection?

Then, I apologize, just one more clean-up in a way, but I think, to Bryan's question on SM&A as a percentage of sales, we're probably implying a roughly 15-year low for this year. Maybe just help us contextualize why we're not getting too low from that standpoint, and maybe that 15-year journey is just about increasing efficiency relative to the sales base. It's come up a couple times, so any added context there would maybe be helpful. Thanks.

Steve Voskuil

Sure. On the segment margins, you're right, the Confection business is going to bear the brunt of the margin impact due to cocoa. Salty margins are up for 2024 year-over-year, and that's even on the back of some pretty heavy investment, and so we feel good about the journey that we're on there. It's not impacted, obviously, by the cocoa component.

On the second question, can you just say the question again? I want to make sure I heard that one.

Chris Carey

It's effectively that operating costs as a percentage of sales look to be implied at a roughly 15-year low in 2024, and it's really just understanding why that's maybe not cutting to the bone, or going too low, while we're just getting more efficient relative to the sales base over time, and that's what we're doing next year, and the year after, that kind of stuff. Maybe just contextualizing that history would be helpful and putting 2024 in context. Thanks.

Steve Voskuil

Sure. Well, let me first say we're not cutting to the bone, that's not the intent of the program at all. We want to continue to protect the brands and the capabilities that give us differentiated opportunities in the market.

When you look at operating expenses, if you look back over time, definitely getting more fixed cost leverage, the business is bigger. Even with a little bit slower growth here in '24, than we've seen in the last couple of years, we get significant leverage. We have efficiencies elsewhere in the P&L. Driving efficiencies through the P&L is an every-year activity, that's not new. We've also seen more efficiencies in the international business. If you think back, the margins were quite a bit lower a couple years ago, before we made some of the transformational moves there. So, a combination of all of those things have led to the improvements that we're seeing, but we're not cutting so far that we feel we're putting in jeopardy any of our key capabilities or growth potential.

Chris Carey

Okay, 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. Michele, I just wanted to come back to, I guess, your brief comments here today, and I think you've mentioned it the prior couple calls, just around consumer shopping for products with maybe a bit more satiation, because, clearly, the conversation today seems a little bit more focused on

cocoa costs, inflation in Salty, and then also pricing potential from here, but if we just separate all that out and we just focused more on kind of current consumer shopping behavior, especially within the Confection category, would you say there are kind of ongoing behavioral shifts that are still taking place, or you kind of foresee that maybe reversing out as you get through the year? I'm just trying to get a sense of kind of how you view the consumer shopping in that category relative to other parts of Snacks. Thanks.

Michele Buck

I'd say, first of all, overall, with the consumer, certainly, I think there is some increase in consumer confidence. We've seen unemployment rates, you know, employment be stable. However, we do continue to see some value-seeking behavior in some pockets of consumers. We believe that the behavior across Confection has largely normalized. We think that we have some of the right steps in place to kind of offset that satiety issue that we've seen with popcorn in areas like adjusting value across different pack types, enhancing marketing communication in ways that build the value proposition, so we do expect that we'll start to see some normalization in popcorn as we go through the year.

Rob Dickerson

Okay, got it, and then, I guess, I just want to ask on kind of longer term Salty segment growth potential. While I realize you may not be providing new long-term targets relative to what you presented at the Investor Day last year, I mean, clearly, it seems like enough has changed, let's say, to at least ask the question. We're thinking kind of past 2024. Do you think, broadly, that kind of low-double-digit growth for that segment is still feasible, or could distribution maybe be a little slower, or there needs to be a little bit more investment required to get there? Just kind of any color as to how you're thinking about that, and that's it. Thanks so much.

Michele Buck

Yes, no problem. Hey, we continue to feel great about the Salty Snack business and our long-term potential. We've seen such tremendous growth over time. There's no change to our long-term outlook. Our long-term outlook and the algorithm has always been around mid-single-digit growth. We had never expected low-double-digit on the long term. We had expected originally that this year might be a bit stronger, but not on a long-term basis. So, no change to that long-term outlook.

Rob Dickerson

Okay, super. Thanks a lot.

Operator

Thank you. Ladies and gentlemen, our final question comes from the line of Jim Salera with Stephens Inc. Please proceed with your question.

Jim Salera

Hi, guys, and thanks for squeezing us in. In your prepared comments, you mentioned that we'll be seeing some joint merchandising activations between Confection and Salty. Can you just give us a sense for—is that increase, you know, buy rates in Hershey households that maybe buy the Confection part of your portfolio, but not Salty, or is it more of a way to increase the visibility for Salty by kind of piggybacking on the good merchandising activations you already have for Confectionary?

Michele Buck

Yes, it's really some of both. Certainly, there's power to that visibility of all of these great brands together. Our Salty brands now are two of our top ten brands, so they have the velocity that warrant being with some of our other really major brands, and then, of course, it does encourage some of that cross-household purchase, as well.

Jim Salera

Then, if I can maybe drill down on Dot's, in particular. I think you mentioned incremental Club distribution for Dot's. I can say, in my neck of the woods, at least, it certainly feels like I have more Dot's placements when I shop my local Club store. How much more distribution upside should we think about for Dot's in some of those untracked channels, where we don't have as much visibility?

Michele Buck

We still do have some distribution upside on Dot's. I'd say more than several points of distribution upside still remain.

Jim Salera

Okay, great. Thanks, guys.

Operator

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

John Baumgartner

Good morning, and thanks for the question. I wanted to come back, Michele, to the outlook for ad spending in 2024, I guess, more or less, in line with sales. Is that a function of just having spent ahead of sales in 2023, and now it's a more normalized year, or is there an expectation for maybe a shift in reinvestment to other drivers, whether it's trade, or anything else, where your total spend growth is actually above the rate of sales? Because, it just seems, though, with the larger innovation coming through, you know, the need for more pricing in the market, I'm sort of surprised that the ad spend is not going to be up higher this year.

Michele Buck

You know, we always really do look across the entire bundle, and, certainly, we had some trade spending increases in '24, and so we look at what's the right bundle across (inaudible), across marketing and consumer marketing and trade, that we think will have the biggest impact, and most efficiently, on driving revenue. So, it's balancing the total view of all of that spending together, which is a big area of focus for us, how we make it all together work as hard as each individual piece.

John Baumgartner

Got it. Thank you.

Operator

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

Melissa Poole

Thank you all for joining us this morning. We look forward to catching up with you later today to answer any additional questions you may have. Have a great day.

Operator

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