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The Hershey Company (HSY) CEO Michele Buck on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.61 beats by $0.01 | Revenue of $2.13B (2.64% Y/Y) beats by $13.49M

Earning Call Audio

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The Hershey Company (NYSE:HSY) Q3 2019 Results Conference Call October 24, 2019 8:30 AM ET

Company Participants

Melissa Poole - Vice President of Investor Relations

Michele Buck - President and Chief Executive Officer

Steve Voskuil - Senior Vice President and Chief Financial Officer

Conference Call Participants

Andrew Lazar - Barclays

Ken Goldman - JP Morgan

Jason English - Goldman Sachs

Alexia Howard - Bernstein

Chris Growe - Stifel

Robert Moskow - Credit Suisse

John Baumgartner - Wells Fargo

Steven Strycula - UBS

David Palmer - Evercore ISI

Michael Lavery - Piper Jaffray

Kenneth Zaslow - Bank of Montreal

Operator

Good morning, everyone, and welcome to The Hershey Company's Third Quarter 2019 Results Conference Call. My name is Catherine, and I will be your conference operator today. All participants have been placed in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] This call is scheduled to end at about 09:30 a.m. So, please limit yourself to one question, so we can get to as many of you as possible. Please note, this call may be recorded. Thank you.

I would now like to turn the call over to Melissa Poole, Vice President of Investor Relations. Ms. Poole, you may begin your conference.

Melissa Poole

Thank you, Catherine. Good morning, everyone. We appreciate you joining us for The Hershey Company's third quarter 2019 earnings conference call and webcast. Michele Buck, Chairman of the Board, President and CEO; and Steve Voskuil, Senior Vice President and CFO, will provide you with an overview of our results, followed by a Q&A session.

Before we begin, please remember that during the course of this call, we may make Forward-Looking Statements within the meanings of the Federal Securities Laws. These statements are based on our current expectations and involve risks and uncertainties that could differ materially from actual events and those described in these forward-looking statements contained in our 2018 10-K filed with the SEC and today's press release.

Finally, please note that on today's call, we will refer to certain non-GAAP financial measures that we believe will provide useful information for investors. The presentation of this information does not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Please refer to today's press release for a reconciliation of the non-GAAP financial measures to the most comparable measures prepared in accordance with GAAP.

With that, I would like to turn the call over to Michele.

Michele Buck

Thanks, Melissa. Good morning to all of you on the phone and on the webcast. We are pleased with our third quarter results and the momentum we are seeing on our core business. Investments in our brands and capabilities as well as strong execution are driving solid conception sales and share gains, in both our U.S. and International markets.

Our Amplify portfolio continues to deliver mid to high single-digit growth and we continue to execute against our broader snacking ambition with the acquisition of One brand, a portfolio of higher growth better for you nutrition bars that enables us to capture incremental consumer occasions.

I would just like to pause briefly and say thank you to all of our employees who work so incredibly hard to deliver today and also to create momentum for our future.

In the third quarter, net sales increased 2.6%, organic constant currency net sales growth of approximately 1.6% was in-line with our expectations, driven primarily by pricing in North America and volume growth and international. The net impacts with acquisitions and divestitures was 120 basis points benefits driven by our Pirate's brand acquisition, and FX was a 20 basis points headwind.

We had another strong quarter of gross margin expansion that enabled a double-digit increase in brand reinvestment as well as adjusted earnings per share growth of approximately 4%. We remain focused on investing in our brands and capabilities for growth, while also delivering consistent earnings performance overtime. Something we believe is a differentiator for us and critical to driving shareholder value.

Our key initiatives within our U.S. core confection business continues to perform well and are driving strong retail takeaway and accelerating share performance. For IRI, Hershey Candy Mint and Gum retail sales increased 2.2% versus prior year in the 12 weeks ending October 13. This resulted in a shared gain of approximately 23 basis points.

Our $2 billion Reese's brand had another outstanding quarter, with retail sales growth of over 6%. Growth was balanced across multiple levers including strong advertising, distribution gains, smart innovations, new packaging, seasons and pricing. We Reese's brand performing well and we are encouraged by the sustainability and incrementalality of the launch.

We also re-launched our Take5 brand under the Reese's umbrella late this summer, and early results are strong. As some of you may know, Take5 is my favorite Hershey Candy, so I couldn't be more thrilled to see takeaway up to over 50% since the re-launch, and we believe there is more opportunity to capture on this great tasting product.

Reese's, along with several of our other brands, like Hershey miniatures Kisses and Kit Kat are seeing nice lifts from our new packaging in the take home isle. Performance on these improved bags has been consistently trending up since the transition and we are achieving all of our key benchmarks and driving growth both for us and for our retailers.

Our Halloween season is off to a solid start and selling was strong after a successful 2018 season. The power of our core brands, breath of our product line up and incremental capacity are enabling us to deliver great assortment and innovative packaging for our consumers. Additionally, this year we have an Addams Family movie partnership that we will leverage to drive shopper engagement via advertising, merchandising and on tech promotions for key items.

Our ecommerce confession business continues to perform well, with net sales growth approximately of 50% in the third quarter, driven by a strong Halloween selling and balanced performance across all fulfillment models. We are measured Hershey’s share of the chocolate category continues to increase with gains of 610 basis points in the quarter according to third-party sources.

Our pricing initiatives remain on-track and are performing in-line with expectation. As we have discussed previously, we believe strategic pricing is an important lever for us to enable investment in our brands and capabilities.

In 2019, we have invested in capabilities such as media targeting, digital commerce, new business models and supply chain. These capabilities in addition to our brand investments in innovation, advertising, seasons and distribution are driving balanced, sustainable growth in the marketplace.

As we look ahead to the rest of the year, we are excited to keep the momentum going with some great activation. Our ICE BREAKER brand is partnering with Disney to bring character packaging and high impact merchandising to stores for the highly anticipated release of Frozen 2 next month. This is a great opportunity to capitalize on the cultural momentum of the movie and secure incremental merchandising opportunities in store.

Four, our holiday program this year, we will build on last year’s success by continuing to drive our core and leverage a hero innovation item to secure incremental merchandising and engage with our consumers.

This year's item is Reese's Mystery Shapes, which combines the anticipation and surprise of the holidays with the perfect ratio of peanut butter and chocolate that our consumers craves during the season. It is the first new Reese holiday shape in 20 years, and it will be available nationwide for a limited time only.

And as we announced earlier this year, we will be launching Kit Kat Duos in December. Our supply chain investments and incremental capacity and new production capabilities allows us to bring consumers to crispy light wafer they love surrounded by dark chocolate on the bottom and mint cream on the top. The launch will be supported with merchandising, national TV and digital media.

Now for an update on our recent acquisitions. SkinnyPop continues to perform very well in the marketplace, with retail sales up over 10% in the latest 12 weeks, this growth has significantly outpaced competition, resulting in a share gain of a 170 basis points in the ready-to-eat popcorn category.

Both household penetration and frequency has consistently grown this year, a testament to the underlying strength of this brand. We will leverage this strength to continue optimizing placements and facings on shelves, as well as secure incremental space for new pack types that meet different consumer occasions.

Pirate's Booty performance is improving versus the first half of the year in-line with our expectations. In the latest 12 weeks, the business has begun to stabilize and trends are strong where distribution has been maintained. Well, performance is not yet where we want it to be, we remain confident in the strength of the brand and our visibility into recapturing lost distribution as planograms reset.

Now for a few more details on our most recent acquisitions and venture investments. Last month, we closed our acquisition of One Brand, and I'm excited to welcome the team to the Hershey family. One is a portfolio of low sugar, high protein nutrition bars with net sales of approximately $100 million. As many of you know, the nutrition bar category is approximately $3 billion and its growing mid to high single-digits.

The One portfolio is growing 40% to 50% and has a strong presence outside of measured channels, including a robust ecommerce business. We expect the acquisition to be slightly accretive to earnings in year one, and highly incremental to our existing portfolio.

We also announced two minority investments in emerging snacking businesses Fulfill Holdings and Blue Stripes in August. Fulfill was one of the leading makers of great tasting vitamin fortified, high protein nutrition bars in the UK and Ireland. And Blue Stripes the town shop offers experiential retail that combines the goodness of coco with a unique customer experience.

This sensor model provides the Company with new avenues for growth through the deployment of small capital investments in disruptive or emerging platforms focused on new occasions, new technologies and new go to market opportunities.

Now for an update on our international markets. Constant currency organic sales grew 3.7% in the third quarter, and we continue to see strong segment operating income growth of almost 27% as we focus on increasing gross margins and right sizing our brand an SG&A investment.

Our business in Mexico continues to show strong high single-digit growth behind increased distribution and innovation of our Hershey's and Pelo Rico brands. In India, we continue to see robust growth of over 16% behind distribution gains and our and launch of Hershey Kisses. The Kisses launch remains on-track and we plan to expand to additional cities in 2020.

And our China business is also growing high single-digits on an organic constant currency basis, driven by improved velocity on our Hershey bars, and reason specific flavor innovation, which is driving incremental growth.

In Brazil, our performance has been challenged by difficult macroeconomic environment and increased competition. While we have invested additional trades to remain competitive, we are also being disciplined about the returns on our investment as we look to balance both the top and bottom line.

In summary, we continue to feel good about the momentum we have a property strategies and the business results we are delivering. We will continue to invest in our brands and capabilities to take the business to the next level and drive sustainable top and bottom line growth.

I will turn it over to Steve, who will provide you with details on our financial results.

Steve Voskuil

Thank you, Michelle, and good morning, everyone. Third quarter net sales of $2.1 billion increase 2.6% versus the same period last year. The net impact of acquisitions and divestitures was a 120 basis points benefits and foreign currency translation was a 20 basis points headwinds.

Organic constant currency net sale growth of 1.6% was driven by pricing, which contributed 1.1 points of growth, while volume contributed 50 basis points of growth.

Our 2018 price increase remains on-track and as anticipated, the impact increased in the third quarter versus the first half. This was offset by our pricing transition period related to our July 2019 price increase, which executed in-line with expectations. We continue to expect minimal full-year sales and earnings impacts from our most recent pricing action.

Adjusted earnings per shares diluted were $1.61 an increase of 3.9% versus the same period last year. This was driven by continued gross margin gains, partially offset by increased brand investments, and higher incentive compensation versus prior year.

By segment, North American net sales increased 2.7% versus the same period last year. Price realization was a 150 basis point benefit and the net impact of acquisitions and divestitures was also a 150 basis points benefit. Volume was a 20 basis point headwind and foreign currency exchange was a 10 basis point headwind.

North America gross margins expanded 80 basis points in the quarter as favorable commodities and net price realization, offset incremental logistics costs. This was slightly higher than our expectations. Recall in the second quarter, we experienced the gross margin benefit related to external inventory mix and fixed cost absorption, both related to our July price increase.

While we expected most of this benefits to reverse in the third quarter, as inventory levels normalize, we now expect the majority of the impact to occur in the fourth quarter. Given this timing shift, and the more difficult lag from the year ago period, we expect Q4 gross margin expansion to be less than the third quarter. We continue to be pleased with the underlying momentum in our margin expansion initiatives and the business reinvestment it is enabling.

North America advertising and related consumer marketing spend increased 14.4% in the quarter, driven primarily by advertising. This increase is in-line with expectations as we prioritize reinvesting gross margin expansion gain back into our brands to drive growth.

As we have shared previously, the dollar spend increase is more meaningful in the second half of 2019 versus the first half. As we are lapping significant media efficiency gains in the year ago period. Third quarter total international and others segment net sales increased 1.8%, volume was a 5.3 point benefit driven by organic growth in our key focus markets.

Net price realization was a 160 basis points headwinds as we invested more in response to increase competitive activity. Foreign currency exchange was a 100 basis points headwind and divestitures were a 90 basis point headwind.

Combined organic constant currency net sales in Mexico, Brazil, India and China grew 7.4% versus the third quarter of 2018. International and other advertising and related consumer marketing decreased 14% versus prior year as we continue to right size investment and increase ROI in China in our regional markets.

Total Hershey adjusted gross profit increased 4.4%, resulting in an adjusted gross margin of 44.8% an increase of 80 basis points versus the third quarter of 2018. This was driven by favorable commodities and net price realization.

Third quarter adjusted operating profit of $477 million resulting in operating profit margin of 22.3% a decrease of 30 basis points versus the third quarter of 2018, as gross margin gains were offset by incremental brand investments and higher incentive compensation.

Moving down the P&L, interest expense of $35 million decreased $1.5 million versus Q3 last year due to lower short-term interest rates. We expect full-year interest expense of approximately $145 million, the high end of our previous range due to our recent acquisition of ONE Brand.

The adjusted tax rate for the third quarter was 20.1% versus 22.9% in the year ago period. These gains were driven primarily by excess tax benefits from stock based compensation, along with higher tax investment credits.

For the full-year, we expect an adjusted tax rate of approximately 18.5%. Third quarter other expense was $18 million an increase of $5.5 million versus prior year driven primarily by unfavorable pension expense.

For the full-year, we expect other expense of approximately $70 million to $75 million. This is below our previous estimates, as we plan to exercise fewer tax investment credits and is offset by a slightly higher tax rate for the whole year. Then net impact of these two changes is negligible versus our previous estimates.

For the third quarter of 2019, weighted average shares outstanding on a diluted basis were 211 million, reflecting a slight increase versus the second quarter due to a increased number of stock option exercises in the quarter.

The Company repurchased $191 million of common shares in the third quarter in connection with the exercise of stock options. The Company did not repurchase any shares in the third quarter against our July 2018 $500 million authorization and $410 million remaining.

Total capital additions, including software were $60 million in the third quarter. For the full-year 2019, we continue to estimate CapEx of around $350 million. We continue to return cash to our shareholders with third quarter dividends of $168 million. This was our 359th consecutive quarterly dividend on the common stock, a testament to our strong balance sheet and strong cash flow generation.

Before I close, let me provide some additional information on our recent acquisition of ONE Brands. As Michelle mentioned, net sales are approximately $100 million. Given our mid September close, we expect approximately $25 million of sales in the fourth quarter for this acquisition. The margin profile on this portfolio is attractive, and we expect it to be slightly accretive to earnings in year one.

Given acquisition related costs, we expect it to be slightly dilutive to recorded earnings in the fourth quarter and have a negligible impact to adjusted earnings in Q4. Our focus will be on maintaining the brand's current momentum, [indiscernible] links have to built brand equity and secure incremental distribution and capturing supply chain and procurement synergies.

To summarize for the full-year, we expect full-year recorded net sales to increase to around 2.5%, an increase versus the previous guidance driven by the acquisition of One Brands. The net benefit from acquisitions and divestitures increases to approximately one point.

Full-year FX impact is anticipated to be slightly negative based on current exchange rates. Full-year reported earnings per share diluted are expected to be around $5.58 relatively flat the prior year. Full-year adjusted earnings per share diluted are expected to grow 6%

to 7% consistent with our previous outlook as the impact of One Brands acquisition has a negligible impact on earnings in 2019.

That concludes my financial discussions, and I will turn it back to Michelle.

Michele Buck

Thanks, Steve. We remain confident in our strategies and in our ability to deliver our financial commitments for the year. We are pleased with the progress we have made over the past two years. But we continue to operate with a healthy dissatisfaction that drives us to push and elevate the business even further.

I continue to be energized by the opportunities presented by this rapidly changing environment and the power of our amazing brands and remarkable people to capitalize on this change to unlock new opportunities for the future.

We will continue to focus on delivering today and building for the future in a way that is consistent with our values and purpose. Steve, Melissa and I are now available to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question today will come from Andrew Lazar with Barclays. Please go ahead.

Andrew Lazar

Good morning, everybody.

Michele Buck

Good morning, Andrew.

Steve Voskuil

Good morning, Andrew.

Andrew Lazar

Hi there. So I guess in thinking ahead a little bit, Hershey's already discussed some incremental pricing for 2020 roughly 2% on average. In terms of volume, the SKU rationalization drag I think is behind you at this point. The volume elasticity from the previous pricing, I think is largely behind you. And as Hershey's you have talked about a stepped up brand investment quite a bit. I do recognize there will be some volume elasticity on the new pricing increase, could be a partial offset a little bit on volume going forward. So, I was just hoping you could just comment maybe even more broadly on how sort of all of these factors are expected to come together in terms of how we think about volume moving forward. At a high level do it seem like volume could at least be maybe flattish or given the puts and takes if not a bit better, or the discrete maybe other volumes headwinds we should be aware of maybe it's Easter timing or things along those lines? Thanks so much.

Michele Buck

Yes, I think if we think about our retail takeaway trends and revenue going forward, I think that there is no reason to expect that to - the trends wouldn't be similar with what we have been seeing and are seeing here in the back half of this year.

As you think about going from 2019 into 2020, clearly, we will gain a little bit from SKU wrap being behind us. We lose a little bit in terms of Easter and going through a shorter Easter. But net, net, I think those are two of the single biggest changes you are right, that pricing kind of continues at a pretty steady pace.

So I think it's fair to assume that the trends would be roughly similar to what we have been seeing during the back half of the year.

Andrew Lazar

Got it. And those trends in the back half have been around consumption. I think it's been, I guess what you say today around 2ish or a little above 2ish more or less? Is that fair?

Michele Buck

Yes, exactly. That is fair. I think we have always said 1.5 to two of growth we would get from North America and yes, retail takeaway trend is around 2%.

Andrew Lazar

Great. Thank you so much.

Michele Buck

Thanks.

Operator

Our next question comes from Ken Goldman with JP Morgan. Please go ahead.

Ken Goldman

Hi. Thank you and Michelle, congrats on the added title and responsibilities.

Michele Buck

Thank you.

Ken Goldman

I wanted to ask two questions. One, sort of the mechanics of the gross margin impact on a benefit that you got into 2Q was originally expected to reverberate and hit 3Q, now you're mentioning 4Q as a bigger impact. Can you walk through the mechanics of that, because to me, it was more of a fixed cost absorption benefit, and I just don't understand how the timing is delayed by a few months so that would be helpful? and then I have a follow-up.

Steve Voskuil

Sure, yes, happy to take that one. As we talked about the second quarter, and as you said Ken really two pieces there, one mix driven, we were selling a richer mix for us of instant consumable that was a benefit for us and then the inventory build both our inventory build in the second quarter and third-party inventories.

We expected to see more of that inventory come down in the third quarter and we got a little bit of that benefit back probably about a third of what we expected. We expect more inventory reduction in the fourth quarter and that is really the reason for the delay. With more inventories we got into the third quarter, both in third-party and ours, it took longer to bleed it out.

Ken Goldman

Okay, thank you for that. And then my follow-up, Steve, is on the always exciting topic of working capital, but if you look at working capital forget inventory for a second, because I know there is timing issue there. But I look at your payables on a last 12 months basis and a percentage of COGS they have been decreasing for lowest they have been in a few years. Your last 12 months receivables as a percentage of sales is at a highest they have been in over decades. So can you just walk us through what is going on with these items that is running a little bit less favorably for you at least as I look at it and maybe what the opportunity is to turn them around?

Steve Voskuil

Yes, it's a great question. If you look at say the phase for the balance sheet and cash flow today, I think networking capital year-over-year through nine-months is about $10 million drag across all three of those components.

And if you stick strap one there, so one sort of clouds up the numbers a little bit. It's just a slight positive cash generator year-over-year, but inside that you're exactly right we have opportunities to be more efficient on working capital. I think inventory in particular is one within our cross years and think about the future.

But we do feel they need to be efficient in working capital as one of the sources of funding that helps funding investments and the other thing we want to do with the business. So you can expect we will try to talk more about that as we think about 2020 plans and beyond.

Ken Goldman

Thank you.

Operator

We will now go to Jason English with Goldman Sachs. Please go ahead.

Jason English

Hey good morning folks and thanks for sliding me in, I appreciate it. I wanted to I guess come back to the direction of the question that Mr. Lazar was asking in terms of price contribution as we look into next year, but first kind of close out this year. Do you still expect to see roughly 250 bps of price contributions in North America for this fiscal year?

Michele Buck

No, in the fourth quarter, yes, not for - the full-year was always around more 1.5%, because of the time it takes for pricing to build. So we took 2.5% as we mentioned till that hits fully through the year because of price protection timing we expected more like 1.5 on the annual basis to even out the year.

Jason English

And that price protection timing. How much longer does it run for, is it not behind us now?

Steve Voskuil

Largely behind us as we exit the third quarter, but there is still inventory that will be getting run down into fourth quarter, some of which was still price protected, I would say largely behind us.

Jason English

Right. So I guess that is the component what I'm just having a hard time bridging because we have got the bracket changes of 50 bps, the gum, et cetera and sugar confection, we have got to weighed out benefit. And we should start to see what price protection behind us albeit volumes muted, because the inventory reduction, I would expect to see some of that single serve pricing come through. If you add all that up and it's a much bigger chunk than say 250 bps in the fourth quarter. What am I missing in the math, and maybe what

I'm missing is just sort of reinvestment, or reinvest in SG&A, maybe there is reinvestment in above the line type investment as well. If you could help me understand that I would really appreciate it.

Steve Voskuil

I will take the bigger - the total P&L side and then we can talk about - if Melissa wants to add on the growth line. When you look at the fourth quarter P&L in total, you have got a couple of headwinds. One is the incentives that we mentioned on the call, that was an impact in the third quarter, will also be a drag in the fourth quarter. We have got a tax drag in the fourth quarter, this year we had a lot of our tax planning benefit across the first three quarters. Last year, the fourth quarter was a big tax planning quarter. And so that by itself is order of magnitude an $0.08 drag.

So you have those two pieces working against, we will have some more DME investments in the fourth quarter, similar to what we saw here. And then that gross margin, roughly reversal from the second quarter. That Ken talked about just a few minutes ago. So from a total P&L standpoint below sales, those are some of the big drivers driving the I would say deceleration in the fourth quarter P&L.

Melissa, you want to add anything on the top-line specifically?

Melissa Poole

Yes, just from the pricing piece. You're right in how you're thinking about the builds of last year's than this year's kind of compounding it. I guess the two pieces I would point you to is we did have most of our Halloween Business shifts in the third quarter. So that the jolt we get from that is mostly behind us. So we don't have Halloween pricing in the fourth quarter just because we don't really ship too much in the fourth quarter.

And then the last piece on price protection, there is still a little bit of price protection for some of the promotional activities of our most recent price increase. So we kind of give in the third quarter would have been more around kind of base volume, time to transition to the new prices that everybody gets on everything. In the fourth quarter, there is a little bit of promotional activity that we will also deal back.

So absolutely right that it should be higher than what it was so far a year-to-date and in the third quarter. But I don't know that it's enough to kind of trip you into a pretty significant pop in earning given all of the points that Steve had walked you through.

Jason English

That is helpful and the elevated trade in the fourth quarter, would we expect that to persist into next year?

Melissa Poole

No.

Jason English

Great. Thank you so much.

Operator

We will now go to Alexia Howard with Bernstein. Please go ahead.

Alexia Howard

Good morning everyone.

Michele Buck

Hi, Alexia.

Steve Voskuil

Good morning.

Alexia Howard

Hi there. This is probably quite linked I guess to Jason's question, but again focusing on pricing in North America, but the measured channel pricing was up pretty sharply sort of mid single-digit numbers on the whole portfolio and particularly on chocolate this time around that is obviously meaningfully higher than the 1.5 the price growth that you reported this morning.

Is that just a timing effect, because of the timing of shipments or all the retailers temporarily increasing the markups on the product because of the upcoming pricing increases. And similarly the volumes were down only 2.2% in the numbers you reported this morning and that is a lot better than the mid single-digit declines that we are seeing in measured channels. So I'm just trying to figure out whether there is something going on a non-measured channels that were backed out or whether the inventory, some inventory shifts are recycling that if you could maybe speak to that? Thank you very much.

Michele Buck

Sure. So it is not a measured channel non-measured channel. There are a couple different factors going on. So first of all you right, retail takeaways is trending a little bit ahead of shipments in North America and we expected some of this and part of that is tied to the inventory contraction that is associated with our SKU rationalization program. So we knew that shipments will have a little bit of a drag there were shipments would be lighter and takeaway.

We also know that as we take price, there is some retailer margin expansion from our price increase, so you do see retail prices go up slightly higher than the Hershey prices. And then some of that is just tied to the timing of that new price increase, because as you know we have got kind of the two price increases, the one from last year that hit, and then the new one, where again retail prices will go up before we see that in our data because of how we manage those price increases and allow a buy-in period.

Steve Voskuil

Yes. And I would say - all I would add is by the end of the year we expect those two to tighten up between shipments and take away.

Alexia Howard

Great. Thank you very much. I will pass it on.

Operator

We will now go to Chris Growe with Stifel. Please go ahead.

Chris Growe

Hi good morning.

Michele Buck

Hi, Chris.

Steve Voskuil

Good morning.

Chris Growe

Hi. And so actually a follow-on to Alexia's question there, because related to the - what we are seeing in measured channels the increased level of price realization, we are seeing an equally or weakening volume and performance as well. So I just want to understand how that - maybe from a higher level how elasticity is playing off for you right now and then how we should read again what we are seeing in the measured channel data, which is obviously a increasing in pricing, but a much weaker volume performance overall?

Michele Buck

Yes, so what we are seeing at retail is very consistent with what our model would indicate. We normally see a conversion timeframe, when we take retail prices up, we see volume goes down, obviously we do a lot of work with one of our programming to mitigate some of that volume declines during that conversion timeframe to bring back the volume even more quickly, but typically in periods of price increase, we do see those volume declines and they are pretty much in-line with all of our elasticity models.

Melissa Poole

And just to build on that Chris and we can talk with this a little bit more offline, because there is some extra noise in the third quarter, but if you kind of break them into pieces, and think about last year's price increase, the price of that retailer are to Michele’s point pretty much in-line with expectations. So they are a little bit ahead of us as retailers are expanding margins, but nothing out of bound by any stretch.

I think a lot of the noise in this quarter there is some timing of promotional activity where there were some losses and some higher prices on promotion that you're seeing place through for why those retail prices are a little bit more elevated in the in the quarter, year-to-date they are pretty much in-line with what we are seeing on the P&L, but a little bit of noise in the quarter.

And then especially this most recent price increase to the timing of the protection causes a pretty big disconnect as they start rising prices and we don't see that in our P&L right away. So overall feeling really good they are where we expected, it is just there is a little bit more noise in this quarter.

Chris Growe

Okay. And then just a quick follow-on in terms of how that relates to the gross margin, as I think about the fourth quarter, you have a bit of an easy comparison on the gross margin, have you given indication in terms of your pricing in relation to cost inflation, kind of how that stands today, you talk about input cost being down and then what that would mean for a full-year gross margin and we can kind of imply what it could mean for the fourth quarter.

Steve Voskuil

Yes. I mean our full-year gross margin guidance isn't unchanging. We kind of said in the order of 100 basis points year-over-year, and we are just sort of tracking to that. I'd say there is nothing new relative to commodities versus price, we are playing out the way we expected, again because we have got the hedging program against some of the commodities that smooths out and give some forward visibility, so not a lot of change there. I don't know if that answers your question.

Chris Growe

Yes, it does. Thank you.

Operator

We will now go to Robert Moskow with Credit Suisse. Please go ahead.

Robert Moskow

Thank you. And I will second your remarks Michelle, on Take5.

Michele Buck

Thanks.

Robert Moskow

Yes. And, in my channel checks, what I keep hearing is that actual physical shopping trips to stores are on the rise, which is not what you would expect with the growth of e-commerce and I think that is a positive for your business, more impulse purchases. And then secondly, I saw on the data that it looks like your points of distribution are rising. You didn't really talk about those in your prepared remarks. Can you comment on those two things and would you confirm or not?

Michele Buck

Yes, I think as you look at the IRI data it can be - there is a little bit of noise in that this year, because of the standup packaging bag transition where we had an overlap of inventories transitioning from the old lay down bags to the stand up bags. So we are always pushing to drive against distribution, getting additional points of distribution and actually additional disruptive placements in-store primarily.

So we did have a program at one of our big retailers where we got significantly expanded distribution points around the front end, but it’s a little bit of both, we are expanding some distribution with some customer specific programs, but there is also - it probably looks a little higher in the numbers in the IRI data than actually is just because of that conversion on stand up bags.

Robert Moskow

Thanks, try to see you up. So net-net it is a little higher, but it might be temporary or it's a -.

Michele Buck

No, I would kind of say it's higher, but not as high as the numbers would show. So there is growth, but it's just not as high as the total IRI looks.

Robert Moskow

Okay, and physical shopping fixed stores, I think IRI also indicates that people are going to stores more frequently.

Michele Buck

Yes, we are seeing some good signs there, relatives consumers and I think as consumers are shopping on omni-channel basis we see them in-stores, also looking at the retailers websites, while they are in-store, so we are seeing a lot more of that versus a net shift.

Robert Moskow

Okay. Alright. Very good. Thank you.

Michele Buck

Thanks.

Operator

Our next question comes from [indiscernible] with RBC. Please go ahead.

Unidentified Analyst

Yes, good morning, everyone. Michelle maybe you can just give us some perspective on some channel dynamics, maybe just talk about what you're seeing in big box and the convenience per channel. And then maybe Steve, if you could just address, no one recently talk about inflation and a sided sugar and milk prices. So I just wanted to get your thoughts around that kind of what you guys are seeing and if you are hedged for 2020. Thank you.

Steve Voskuil

Sure.

Michele Buck

Yes, so if we look from a channel perspective, we are really seeing growth across most all classes of trade, with the exception of drug which tends to be a little bit soft, particularly given some of the strategies and actions taken focus in that class of trade. I would say particular strength in big box, for sure. In club stores and in the dollar class of trade, but pretty much growth across everything except for drug.

Steve Voskuil

And Nick on the commodity side. Obviously we are watching commodity prices very closely as we put together our plans for 2020. Hedging gives us some visibility. I think probably the biggest takeaway across that group is that as we talked about in the prepared remarks, we have got a tailwind this year on Coco.

But if you look at the Coco prices today versus the last 12 to 24 months they are higher and so at minimum, we are not likely to have a tailwind in 2020 that we have been able to enjoy this year on Coco. Hedging will help to smooth out that transition and we will get more guidance on commodities in general as we get closer to 2020.

Unidentified Analyst

Great. Thank you.

Operator

We will now go to John Baumgartner with Wells Fargo. Please go ahead.

John Baumgartner

Good morning thank for the question.

Michele Buck

Good morning.

John Baumgartner

Why don't dig into the ONE Brands acquisition a bit, because that nutrition bar space is increasingly crowded. Can you speak a bit to the diligence that went into that and how you're thinking about the competitive tension there, how you think one stands out and maybe how you're envisioning growing that business, whether it's in distribution channels or different product formats?

Michele Buck

Absolutely. So we continue to be excited with the growth that we are seeing in that snack bar segment and particularly if you look across total snack bars, and you really dissect that market, you see that the real sweet spot where that has the strongest growth is that high protein, and particularly high protein with low sugar.

So I think my first direction would be to kind of dissect within that category to say where is the sweet spot where we think that there really is growth and we certainly think that there is room to have a couple brands that play in that space in the marketplace consistent with other categories.

What we really liked about it is, it's very consistent and fits right into our stated desire for scale to growing assets in attractive categories that give us access to incremental snacking occasions. High protein, low sugar it provides on the go convenience, it also gives us a play in the morning snacking occasion where we are underdeveloped.

We like a lot that that business has a strong presence and growth in e-commerce and non-traditional channels, which again provides some incrementalality for us and we certainly like the growth rates that we are seeing on this business. We think it fits in a nice sweet spot for us in terms of where we can add value, because there is still a distribution opportunity.

So I'd say job one, as we look at growing the business is securing that incremental measured distribution expansion, continuing to build on the brands equity, we like the fact that this asset has good margins that are in-line with Hershey margins and that is one thing that has always been important to us to the kind of businesses that we run best, and then of course we will capture any opportunities for supply chain and procurement synergy.

So we see it as a platform that has - our primary focus for growth will be around to close in - at least for the next several years the close in driving against the core. So unlike perhaps some of the other assets in that space where maybe some of their focus is expanding to a lot of other categories. I think there is a lot of upside expanding within snack bars. But then later some opportunity to take that one trademark more broadly in terms of the platform it stands for.

John Baumgartner

Is it fair to think just given you know how in the bar business already that this is something you could repatriate overtime internally in-house?

Michele Buck

I mean, we certainly make a lot of bars and that technology of kind of slab and slip is something certainly we do well. So we always take an approach of getting our arms around the business and then looking at how we leverage repatriating for opportunity whenever and if it is appropriate.

John Baumgartner

Okay. Thanks for your time.

Operator

We will now go to Steven Strycula with UBS. Please go ahead.

Steven Strycula

Hi, good morning.

Michele Buck

Hi, Steve.

Steven Strycula

So I have a question, Michelle, could you walk us around the globe, some of your key markets internationally such as Brazil, China and Mexico, just give us a feel for how Hershey is performing versus the competition or whether you're seeing more competitive dynamics or macro acceleration, deceleration, multinational brands versus local, because you called out specifically Brazil, but be helpful to understand the dynamics across Brazil, China and Mexico and then I have a follow-up?

Michele Buck

Yes, I would say across all of our international markets, we are feeling good and performing well, in most of those markets we are gaining share. For some of my highlights in my opening comments, we feel particularly good about Mexico where we have strong, very strong growth with a real focus on Hershey's Pelo Rico, but we are seeing growth in India in China.

Brazil is really the market that is been challenged given that combination of macroeconomic as well as some competitive activity around deep discounting where we have just made some choices around. Investing additionally, but still being very rational about balance top and bottom line. But I feel good growth and good share progress in all the other markets.

Steven Strycula

Okay, and just to clarify, was Brazil more of a multinational or a local competition?

Michele Buck

Yes, Brazil is more multinational competition.

Steven Strycula

Okay. And then to close out a question on pricing, I know you guys have three levers you pulled for pricing this year that are kind of cascading or phasing in throughout the year and then we have another piece from the price increase announced this summer. So can help us understand as we go from fourth quarters into the first half of next year how do we stack pricing on top of pricing. So basically, when does it peek out versus when does it starts to kind of like normalize to a more moderate rate? Thank you.

Michele Buck

So we will start to see the pricing come into our P&L mostly as we get into Q1 and flow from there. So Q1 should be a little bit higher, but I would expect on an annual basis, you're going to see similar to what we saw with our last price increase of around 2%. That we will see on an annual basis next year. And it will build we won't get from the second price increase any impact this year. But as we go into next year, you will see that build in the marketplace.

Steven Strycula

Thank you very much.

Michele Buck

Does that, answer your question?

Steven Strycula

It does. Thank you.

Operator

We will now go to David Palmer with Evercore ISI. Please go ahead.

David Palmer

[Technical Difficulty] on 2019 is coming to an end here. How do you think this year will shape up versus what you think will be a typical year for your growth in terms of the complexion of the growth. On the phase of it looks like there has been some nice pricing gains relative to input inflation, you even had some pretty clever way of doing pricing with a stand up bags and that weighed out there. You are reinvesting heavily in advertising, you're getting some very nice growth out of your Reese's trademark, which is sort of the trademark of growth of your year. So in some ways it feels like an unusual period in terms of reinvestment room and reinvestment behind what might be your best trademark there and in some ways you might be thinking about a different type of growth going forward. Any thoughts there would be helpful?

Michele Buck

Yes, I guess as I think about the growth model this year and then the growth model for next year, I would say that there are some similarities and I can call of a few differences. So think in terms of similarities pricing certainly this year, pricing will play a key role next year. So I think that is kind of one platform that you can think is even though taking a little bit differently comparable on a year-to-year basis.

While we don't get into specific guidance, we are continuing to look for strategy to continue to reinvest and invest in our brands and capabilities and certainly, that will be a priority for us next year as it was this year.

We always focus on trying to achieve that balance between driving our everyday brands and really driving the core brands. So you should continue to expect to see strong support and programming around Reese when you have built a brand that is $2 billion in revenue.

There will always be a focus on that brand just because of how big a pieces it is at the portfolio but also support by some of our other big brands. We talked about Kit Kat Duos and Kit Kat will certainly be a brand that will have a lot of focus next year as well.

So I think a lot of commonality in terms of some of those elements that you called out, I think relative to growth where the biggest differences are is more around the timing of Easter, which is a little bit of a heard about half a point for next year, but then the benefit around SKU wrapped cycling which is a help. Does that provides perspective?

David Palmer

Yes. No that is. That is helpful. Thank you.

Operator

[Operator instructions] And our next question comes from Michael Lavery with Piper Jaffray. Please go ahead.

Michael Lavery

Good morning. Thank you. Could you just touch on your thinking on the consumer marketing spending is obviously up very strongly in the quarter. But looking at the last few years it's typically been 7%, 7.5% of sales and 2018 was just a little bit of 6%. Should we expect it to get back above a 7% level or are some of the increase this year a little more one off. Can you just give us a sense of how sticky it is and where your optimal range might be. And then just related to that what were some of the things that changed last year where there were the cutbacks and what are some of the things that are coming back or maybe this year in terms of how you're deploying the spending?

Michele Buck

So our kind of stated strategy around marketing investment is to grow in-line or slightly ahead of our sales growth. So to grow the dollar investment in-line or slightly ahead. There can be some noise around that, because sometimes we are able to get efficiencies in how we are buying and so we can actually get greater impressions than the dollar budget. So it's not always perfect, but I would say that is overall how you should think about it.

When we took our spend back from 7%, 7.5% down to 6% there were two key places that the spends really came out of, one was we did start gaining some efficiencies as we started developing some of our creative in-house and also some media efficiencies from very strengthen targeting capabilities. And then we also cut back on some of the smaller emerging brands where we believe that frankly we were over investing beyond what we should.

As you look at where we are now and the reinstatement of spend, you will certainly see that in terms of strength behind the core brands, but then also really tapping into unleash some of our smaller brands like a ROLO, HEATH bands that have been around forever, brands that are very stable and with a slight amount of increase in advertising we can drive some significant growth. So that is I would say where the biggest priorities of reinvestment has been.

Michael Lavery

Just when you talk about some of the cuts on emerging brands, could you give any examples of what those might have been?

Michele Buck

Yes, I would say, let's say KRAVE would be an example, some of the emerging brands that we have in our Amplify portfolio. Some of our snack mixes that were in the warehouse isle under the Reese or Hershey trademark, things like that.

Michael Lavery

That is helpful. Thank you very much.

Operator

We will now got to with Ken Zaslow with Bank of Montreal. Please go ahead.

Kenneth Zaslow

Hey, good morning, everyone.

Michele Buck

Hi Ken.

Steve Voskuil

Good morning.

Kenneth Zaslow

Just a one follow-up question here. On the thin platforms can you talk about how broad that could be to other products, how big you think that could be. It just seems like that is something very similar to the expansion of other products that you have and other real opportunity that this can actually become a bigger product offerings. Can you talk about that?

Michele Buck

Yes, absolutely. So, we feel great, first of all about Reese's performance in the marketplace, it is on-track with our expectations, we are seeing signs of sustainability and incrementality. So certainly we always look as we develop innovation to see if there is an opportunity to develop the platform and certainly this does feel like one that could cut across multiple brands and that certainly an opportunity that we are evaluating?

Kenneth Zaslow

How big do you think the platforms can be, can you put any like parameters around it about which brands it can go to? It just seems like there is a lot that can be happening with this. Can you kind of put some parameters to it and I will leave it there?

Michele Buck

Yes, I mean, I think there are multiple brands that can go to, I think what we always try and focus on with our platform is not spreading it too far. But having it focused on a couple brands where it really makes the most sense. And clearly, if you look at the history of how we have built other platforms in the past and just beside the brands, Reese given its size, will definitely be the largest of opportunities, but I do believe that there can be growth beyond that.

Kenneth Zaslow

Great. Thank you.

Operator

We have no further questions at this time. I would like now to turn the call back to our speakers for any additional remarks.

Melissa Poole

Hey thanks so much for joining us this morning. The team will be available today and all of next week for any follow-up questions you may have. Thanks so much.

Operator

This does conclude today's program. Thank you for your participation. You may disconnect at anytime.