



McCormick Reports Strong Sales And Profit Growth In Second Quarter

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 PHILADELPHIA, Pa., June 29, 2017 (PRNewswire) - McCormick & Company, Incorporated (NYSE:MKC), a global leader in flavor, today reported financial results for the second quarter ended May 31, 2017 and provided its latest financial outlook for fiscal year 2017.

- Sales rose 5% in the second quarter from the year-ago period. In constant currency, the company grew sales 7%, with increases in both the consumer and industrial segments.
- Operating income was \$13 million in the second quarter compared to \$12 million in the year-ago period. Adjusted operating income was \$17 million, a 7% increase from \$12 million in the second quarter of 2016, and a 9% increase in constant currency.
- Earnings per share was \$0.79 in the second quarter compared to \$0.73 in the year-ago period driven by higher operating income. Adjusted earnings per share rose 9% to \$0.82 from \$0.75.
- For the 2017 fiscal year, the company updated its financial outlook to reflect a lowered impact from unfavorable foreign currency on net sales and a higher impact from special charges. Excluding these impacts, the company reaffirmed its expected constant currency growth rate for sales, adjusted operating income and adjusted earnings per share.

Chairman, President & CEO's Remarks

Lawrence C. Kurita, Chairman, President and CEO, stated: "Our strong second quarter financial results reflect the effectiveness of our sales and profit growth strategies driven by the engagement of our employees around the world. Both our consumer and industrial segments contributed to our constant currency sales growth of 7%. Our consumer segment delivered base and new product sales growth from the year ago period, with solid performance in the Americas and strong momentum in China, partially offset by the impact of challenging environments in Europe, Middle East and Africa (EMEA). Our industrial business delivered excellent sales growth driven by new products, expanded distribution, and customer loyalty. In addition to our strong base business and new product growth, the acquisition of Galt and Gourmet Garden contributed higher sales as valuable additions to our global portfolio of flavors. Through the second quarter, we have grown sales 9% in constant currency versus our 2017 constant currency sales growth objective of 5 to 7%.

McCormick is a global leader in flavor - a growing and exciting business platform. By continuing to capitalize on the global and growing consumer interest in healthy, flavorful eating, the source and quality of ingredients and sustainable and socially responsible practices. We are aligned with the increased demand for great taste and healthy eating and are confident in our plans to drive growth through new products across both of our segments, through our strong brand marketing programs and with our opportunities to expand distribution. We are balancing our resources and efforts to drive sales with our work to lower costs, and are excited to announce at least \$100 million of cost savings in 2017 led by our Collaborative Cost-Reduction Program (CCRP) program. We have established our McCormick Global Excellence (MGE) initiative and will be changing our global processes, capabilities and operating model over the next three years to build a scalable platform for future growth.

I want to recognize McCormick employees around the world for their skill and engagement. With our vision to bring the joy of flavor to the world and our steadfast focus on growth, performance, and people, we are well-positioned to deliver strong financial results in 2017 and build value for our shareholders."

Second Quarter 2017 Results

McCormick reported 4% sales increase in the second quarter from the year ago period, including a 2% unfavorable impact from currency. The consumer segment sales increase was primarily driven by solid U.S. base business and new product growth in the Americas, strong momentum in China, and the incremental impact of Gourmet Garden, acquired in April 2016. These sales increases for the consumer segment were offset in part by the impact of a challenging retail environment in the U.K. Industrial segment sales grew by 3%, including a 3% unfavorable impact from currency. Industrial sales growth was driven by increased sales across most of our regions, including the incremental impact of the acquisition of Galt, acquired in December 2016. Across both segments, acquisitions contributed 2% to the sales growth in the second quarter of 2017. In constant currency, the company grew sales 7%.

Operating income was \$13 million in the second quarter compared to \$12 million in the year ago period. The increase was due to higher sales, a 6% in the year ago period, including the incremental impact of currency and an increase in special charges. The company recorded \$5 million of special charges in the second quarter of 2017 related to transportation and marketing activities versus \$4 million in 2016. Excluding special charges, adjusted operating income was \$17 million compared to \$12 million in adjusted operating income in the year ago period. In constant currency, the company grew adjusted operating income 9%.

Earnings per share was \$0.79 in the second quarter of 2017 compared to \$0.73 in the year ago period. Special charges lowered earnings per share by \$0.03 and \$0.02 in 2017 and 2016, respectively. The increase in earnings per share was driven primarily by higher operating income. Excluding the impact of special charges, adjusted earnings per share was \$0.82 in the second quarter of 2017 compared to \$0.75 in the year ago period.

The company continues to generate strong cash flow. Year-to-date net cash provided by operating activities through the second quarter of 2017 was \$177 million compared to \$212 million through the second quarter of 2016, with the decrease mainly due to the timing of income tax payments and incentive compensation payments related to 2016's performance.

2017 Financial Outlook

For the 2017 fiscal year, McCormick updated its financial outlook to reflect a lower impact from unfavorable foreign currency exchange rates on net sales and a higher impact of special charges. Excluding these impacts, the company reaffirmed its expected constant currency growth rates for sales, adjusted operating income and adjusted earnings per share.

In 2017, McCormick expects to grow sales 4% to 6% compared to 2016. Excluding the impact of unfavorable currency rates, the projected growth remains 5% to 7%. The company expects to drive sales growth with new products, brand marketing, expanded distribution and the incremental sales impact of acquisitions completed in fiscal year 2016 and from Galt, acquired in December 2016. Sales growth is also expected to be driven by pricing actions that are intended to offset an anticipated mid-single digit increase in material costs. The company has plans to achieve at least \$100 million of cost savings and therefore use these savings to improve margins, fund R&D and high-growth digital increases in brand marketing, and as a buffer to offset increased material costs.

Operating income in 2017 is expected to grow 9% to 10% from \$84 million of operating income in 2016. The company's three year MGE initiative will generate savings of approximately \$20 million to \$40 million annually once fully implemented. While the company is still finalizing the details of its operating model, the expected cost to implement MGE will be approximately \$5 million to \$6 million of special charges over the course of the three year initiative. The impact of MGE is the primary driver for the increased 2017 special charge projection to approximately \$20 million from \$11 million. Excluding the impact of special charges in 2017 and 2016, the company expects to grow adjusted operating income 9% to 10% from adjusted operating income of \$95 million in 2016. Excluding the estimated impact of unfavorable currency rates, the expected year to year increase in adjusted operating income remains 5% to 7%.

McCormick projects 2017 earnings per share to be in the range of \$0.84 to \$0.92 compared to \$0.88 of earnings per share in 2016. Excluding an estimated \$0.11 impact of special charges in 2017, the company reaffirms projected adjusted earnings per share of \$0.78 to \$0.84. This is an increase of 7% to 9% from adjusted earnings per share of \$0.78 in 2016. This range of growth includes an estimated unfavorable impact of 2 percentage points from unfavorable currency rates. For fiscal year 2017, the company projects another year of strong cash flow, with plans to return a significant portion to McCormick's operations through dividends and share repurchases, absent any acquisitions.

Business Segment Results

	Three months ended		Six months ended	
	2017	2016	2017	2016
Net sales	\$ 464.1	\$ 441.8	\$ 905.9	\$ 1,212.0
Operating income	66.2	62.2	130.2	119.2
Operating income, excluding special charges	81.3	85.4	169.2	190.7

The company's consumer segment sales rose 2% when compared to the second quarter of 2016. In constant currency, sales rose 4%.

- Consumer sales in the Americas rose 5%, with minimal impact from currency. In the U.S., the company increased sales driven by new products, expanded distribution, and strength in McCormick Grill Mates and the Gourmet spices and seasonings product line. Incremental sales from the acquisition of Gourmet Garden contributed 2 percentage points to sales growth.
- Consumer sales in EMEA decreased 6%, in constant currency, sales decreased 5% from the year-ago period mainly due to weak sales in the U.K., where the competitive retail environment has been challenging.
- Second quarter consumer sales in the Asia/Pacific region rose 10% and in constant currency, sales rose 15%. Sales of Gourmet Garden added 4 percentage points to the increase in this region. The company achieved strong sales growth in China as well as in India.

Consumer segment operating income, excluding special charges, rose 6% to \$81 million compared to \$86 million in the year-ago period. In constant currency, adjusted operating income rose 7%. The favorable impact of higher sales and CCRP cost savings, more than offset the unfavorable impact of increases in material costs.

Industrial Segment

	Three months ended		Six months ended	
	2017	2016	2017	2016
Net sales	\$ 412.7	\$ 412.1	\$ 824.8	\$ 791.9
Operating income	48.3	42.1	90.4	78.9
Operating income, excluding special charges	46.2	42.2	88.3	78.9

Industrial segment sales increased 3% from the second quarter of 2016. In constant currency sales rose 12% with increases in each of the company's three regions.

- Industrial sales in the Americas grew 6% from the year-ago period. In constant currency, the increase was 4%. This was led by double-digit increases in sales of both savory flavor products and snack seasonings as well as strong branded foodservice growth, offset in part by weaker demand from quick service restaurants.
- In EMEA, industrial sales grew 27% in the second quarter. In constant currency, sales rose 33%, with sales from Galt contributing 23% to this growth. Sales in both quick service restaurants and packaged food products continued during the period. Industrial sales in this region were unfavorably impacted by the devaluation of a lower margin business.
- Industrial sales in the Asia/Pacific region were comparable to the year-ago period and rose 3%, in constant currency, as a result of higher volume and product mix.

Industrial segment operating income, excluding special charges, rose 5% to \$81 million from \$45 million in the year-ago period. In constant currency, adjusted operating income rose 12%. The favorable impact of higher sales, product mix and CCRP cost savings, more than offset the unfavorable impact of increases in material costs and an increase in brand marketing.

Non-GAAP Financial Measures

The table below includes financial measures of adjusted operating income, adjusted income and adjusted earnings per share, each excluding the impact of special charges for the periods presented. These represent non-GAAP financial measures which we prepared as a complement to our financial results prepared in accordance with United States generally accepted accounting principles. In our consolidated income statement, we include a separate line item captioned "special charges" in writing of our consolidated operating income. Special charges consist of expenses associated with certain activities undertaken by the company to reduce total cost, simplify program processes, and improve our competitiveness and are of significant importance to our long-term success and operational performance. The management committee, composed of our Chairman, President and Chief Financial Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Financial Officer, President Global Industrial Programs and McCormick International, President Global Consumer Segment and North America President, Human Resources, and representatives of each impacted division (including details with respect to estimated costs, which generally consist primarily of employee severance and related benefits, together with ancillary costs associated with the action that include a non-cash component of a compensated and expected change and expected change and expected change and expected change, expenses associated with the approved action are classified as special charges upon recognition and measured on an on-going basis through completion.

We believe that these non-GAAP financial measures are important. The exclusion of special charges provides additional information that enables shareholders to compare and, accordingly, facilitates the development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of our ongoing operations and evaluate our business performance and trends.

These non-GAAP financial measures may be considered in addition to results prepared in accordance with GAAP, but should not be construed as a substitute for, or superior to, GAAP results. In addition, these non-GAAP financial measures may not be comparable to similarly defined financial measures of other companies because other companies may not calculate them in the same manner that we do. We intend to continue to provide these non-GAAP financial measures as part of our future earnings discussions and, therefore, the inclusion of these non-GAAP financial measures will provide consistency in our financial reporting. A reconciliation of these non-GAAP financial measures to the related GAAP financial measures is provided below:

	Three Months Ended				Six Months Ended			
	2017	2016	2017	2016	2017	2016	2017	2016
Operating income	\$ 6.2	\$ 10.1	\$ 12.4	\$ 12.4	\$ 24.7	\$ 20.1	\$ 49.3	\$ 49.3
Impact of special charges	\$ -0.7	\$ -0.6	\$ -0.7	\$ -0.6	\$ -1.4	\$ -1.2	\$ -2.8	\$ -2.4
Adjusted operating income	\$ 5.5	\$ 9.5	\$ 11.7	\$ 11.8	\$ 23.3	\$ 18.9	\$ 46.5	\$ 46.9
% increase versus prior period	6.5 %		6.0 %		6.0 %		6.0 %	
Net income	\$ 16.8	\$ 10.0	\$ 30.5	\$ 16.5	\$ 60.5	\$ 36.7	\$ 117.2	\$ 63.2
Impact of special charges above (1)	\$ -0.4	\$ -0.2	\$ -0.4	\$ -0.2	\$ -0.8	\$ -0.4	\$ -1.6	\$ -0.8
Adjusted net income	\$ 16.4	\$ 9.8	\$ 30.1	\$ 16.3	\$ 59.7	\$ 36.3	\$ 115.6	\$ 62.4
% increase versus prior period	7.2 %		4.3 %		4.3 %		4.3 %	

