



McCormick Reports Record 2017 Financial Results And Strong Growth Outlook For 2018
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SPENCE, Md., Jan. 25, 2018 PRNewswire – McCormick & Company, Incorporated (NYSE: MCC), a global leader in flavor, today reported financial results for the fourth quarter that led to record results for the fiscal year ended November 30, 2017. The company provided an outlook for continued growth in 2018.

- For the fourth quarter, sales rose 21% from the year-ago period. In constant currency, the company grew sales 20%, with strong results in both the consumer and industrial segments. Earnings per share increased to \$1.22 from \$1.24 in the fourth quarter of 2016. Adjusted earnings per share rose 21% to \$1.54 from \$1.27 in the year-ago period.
- For fiscal 2017, sales rose 19% from the prior year with minimal impact from currency. Operating income was \$792 million compared to \$641 million in fiscal 2016. Adjusted operating income was \$788 million, a 20% increase from \$657 million for fiscal 2016, and a 21% increase in constant currency. Earnings per share increased to \$3.72 from \$3.69 in fiscal year 2016, and adjusted earnings per share rose 13% to \$4.26 from \$3.76.
- Cash flow from operations grew 24% to a record \$913 million in 2017. In November, an 11% increase to the quarterly dividend was authorized, marking the 23rd consecutive year of dividend increases.
- For the 2018 fiscal year, McCormick expects to increase sales year-over-year by 12% to 14%, which includes a one percentage point favorable currency impact. The company expects to achieve earnings per share of \$8.89 to \$7.14 in fiscal year 2018, including the non-recurring net favorable impact of the recent U.S. tax legislation, compared to \$3.72 in 2017. Adjusted earnings per share is expected to be \$4.90 to \$4.36, which is an increase of 13% to 15% from \$4.26 in 2017 and includes an estimated one percentage point unfavorable currency impact.

Chairman, President & CEO's Remarks

Lawrence E. Kurita, Chairman, President and CEO, stated: "Our broad global flavor portfolio continues to drive growth and differentiate McCormick. In 2017, we delivered another year of record financial results with strong core business performance and the incremental impact of acquisitions. Our performance reflects the effectiveness of our strategies and engagement of employees around the world. The robust growth in sales, operating income, and earnings per share in 2017. We exceeded each of our key financial goals in 2017. Our sales growth and focus on profit optimization drove excellent financial results for our consumer and industrial segments. In addition to our strong base business and new product growth, the acquisition of RB Foods, Chief and Gourmet Garden contributed to higher sales, we believe attributable to our global portfolio of flavors. Through our Comprehensive Continuous Improvement (CCI) program, we are generating fuel for growth. Led by the program, we achieved \$17 million in cost savings in 2017 and will see our way to achieving our four-year \$50-million goal of cost savings by 2018. Through the combination of our CCI program and our strategy to shift our portfolio to more value-added products, we expanded our adjusted operating margin. We also had solid consecutive year of record cash flow from operations, and in 2017, increased our quarterly dividend for the 23rd consecutive year. Along with these accomplishments, we are making measurable progress toward our 2025 sustainability goals. During 2017, we were recognized as a Dow Jones Sustainability Index leader for the 12th year, as well as a Global 100 leader by the 14th year. We are proud to have been named the most ethical company in the world by the 12th year. In the food and beverage industry for the second consecutive year."

"2017 was a milestone year for McCormick. We are proud of our performance and our continued growth trajectory heading into 2018. With new ideas, innovation and passion, we are proactively adapting to changes in the industry. We are continuing to invest in the global and growing consumer interest in healthy, flavorful eating, the source and quality of ingredients, and sustainable and socially responsible practices. Our performance across our broad global portfolio is strong and we are strengthened our flavor leadership, further with the addition of the iconic French's and Frank's RedHot brands. Our enthusiasm for the acquisition of these brands and our confidence that our employees will drive the success of the fourth quarter. We are well positioned to capitalize on the opportunities for growth and cost savings. Our focus on growth is resulting against our strategies, driving profit realization and strengthening our organization is the foundation of our focus. In 2018, we expect to begin seeing our 6% to 8% long-term constant currency objective for sales growth. We are banking our resources and efforts to drive sales with our work to lower costs, and plan to achieve approximately \$100 million in 2018 cost savings by our CCI program. With higher sales and greater productivity, we expect to increase adjusted earnings per share 13% to 15%. Along with higher profit, we are working toward another year of strong cash flow."

"I want to recognize McCormick employees around the world for their efforts and engagement. With our vision to bring the joy of flavor to all and our steadfast focus on growth, performance, and people, we are confident in our continuing momentum for growth in 2018 to deliver strong financial results and hold value for our shareholders."

Fourth Quarter 2017 Results

McCormick reported a 21% sales increase in the fourth quarter from the year-ago period, including a 1% favorable impact from currency. Sales from RB Foods and Galt, acquired in August 2017 and December 2016, respectively, added 15% to the sales increase. The remaining increase was driven by new products and growth in the base business through brand marketing support, expanded distribution, and pricing actions taken to offset material cost inflation. The sales increase was broad-based between the company's consumer and industrial segments with growth in each region. In constant currency, the company grew sales 20%.

Gross profit margin increased 80 basis points versus the year-ago period. This expansion was driven by our shift in the portfolio to more value-added products and COI-net cost savings, partially offset by the RB Foods transaction expenses related to the acquisition-date fair value adjustment of investments. Operating income was \$267 million in the fourth quarter compared to \$219 million in the year-ago period. This increase was due to higher sales and gross profit margin expansion, offset in part by an increase in brand marketing, transaction and integration expenses from the acquisition of RB Foods and special charges. The company recognized \$31 million transaction and integration expenses in operating income related to the RB Foods acquisition in the fourth quarter of 2017. The company recorded \$9 million of special charges in the fourth quarter of 2017 related to organization and restructuring activities versus \$6 million in 2016. Excluding transaction and integration expenses as well as special charges, adjusted gross profit margin increased 180 basis points from the year-ago period and adjusted operating income was \$207 million compared to \$225 million. In constant currency, the company grew adjusted operating income 8% from the fourth quarter of 2016.

Earnings per share was \$1.22 in the fourth quarter of 2017 compared to \$1.24 in the year-ago period. Transaction and integration expenses and special charges lowered earnings per share by \$0.22 and \$0.03 in 2017 and 2016, respectively. The increase in earnings per share was driven by higher operating income and a lower income tax rate, partially offset by higher interest expense and shares outstanding. Excluding the impact of transaction and integration expenses as well as special charges included in operating income, adjusted earnings per share increased 21% to \$1.54 in the fourth quarter of 2017 compared to \$1.27 in the year-ago period.

Fiscal Year 2017 Results

McCormick reported a 19% sales increase in 2017 compared to 2016 with minimal impact from currency. Incremental sales from acquisitions, which included RB Foods and Galt as well as Gourmet Garden, acquired in April 2016, contributed 6% to the sales increase. The remaining increase was driven by new products and growth in the base business through brand marketing support, expanded distribution, and pricing actions taken to offset material cost inflation. In constant currency, the company grew sales 19%.

Gross profit margin increased 110 basis points over the prior year. This expansion was driven by our shift in the portfolio to more value-added products and COI-net cost savings, which offset the RB Foods transaction expenses related to the acquisition-date fair value adjustment of investments. Operating income was \$792 million in 2017 compared to \$641 million in the prior year and operating income margin rose 10% compared to 2016. The favorable impact of higher sales and COI-net cost savings more than offset higher material costs. An increase in brand marketing and special charges as well as transaction and integration expenses from the acquisition of RB Foods. The company recognized \$2 million of transaction and integration expenses in operating income related to the RB Foods acquisition in 2017. The company recorded \$22 million of special charges in 2017 related to organization and restructuring activities versus \$16 million in 2016. Excluding transaction and integration expenses as well as special charges, adjusted gross profit margin increased 50 basis points from 2016 and adjusted operating income was \$788 million compared to \$657 million. In constant currency, the company grew adjusted operating income 21%. The company reported adjusted operating margin 14% basis points from the prior year.

Earnings per share was \$3.72 in 2017 compared to \$3.69 in the prior year. Transaction and integration expenses, including \$15 million of other debt costs, as well as special charges lowered earnings per share by \$0.54 and \$0.09 in 2017 and 2016, respectively. The increase in earnings per share was driven by higher operating income partially offset by higher interest expense and special charges. Excluding the impact of transaction and integration expenses as well as special charges included in operating income, adjusted earnings per share increased 13% to \$4.26 in 2017 compared to \$3.76 in the prior year. This increase includes the contribution of treasury currency rate.

Net cash provided by operating activities reached a record \$913 million in 2017, a 24% increase from \$659 million in 2016, driven by working capital improvements. A portion of this cash was used to pay down debt.

Fiscal Year 2018 Financial Outlook

McCormick is a global leader in flavor – a growing and advanced business platform. The company expects continued global growth in consumer demand for great taste and healthy eating. McCormick is aligned with consumers' increased interest in better flavors, demand for convenience and focus on fresh, natural ingredients as well as greater transparency around the sourcing and quality of food. Through its growth strategies, the company is well positioned to meet the increased consumer demand and drive sales of its broad flavor portfolio through brand marketing, new products and expanded distribution.

In 2018, the company expects to grow sales 12% to 14% compared to 2017, including a one percentage point favorable impact from currency. The company expects to drive sales growth with the incremental impact of acquisitions completed in 2017, new products, brand marketing and expanded distribution. Sales growth is also expected to include the incremental impact of pricing from 2017 in addition to actions taken in 2018 to offset an anticipated low-single digit increase in material costs. The company has plans to achieve at least \$100 million of cost savings and intends to use these savings to improve margins, invest in innovation and brand marketing, and as a buffer against increased material costs.

Operating income in 2018 is expected to grow 30% to 34% from \$792 million of operating income in 2017. Integration expenses from the RB Foods acquisition of approximately \$23 million are currently projected to impact operating income for 2018. Special charges of approximately \$16 million are currently projected for 2018 that relate to primarily announced organizational and restructuring actions. Excluding the impact of transaction and integration expenses as well as special charges in 2018 and 2017, the expected growth in adjusted operating income is 23% to 25% from adjusted operating income of \$788 million in 2017. The growth includes an estimated one percentage point favorable currency impact.

McCormick expects 2018 earnings per share to be in the range of \$8.89 to \$7.14 compared to \$3.72 of earnings per share in 2017. Excluding an estimated non-recurring impact of the recent U.S. tax legislation, earnings per share is expected to be in the range of \$4.90 to \$4.36. This is an increase of 13% to 15% from adjusted earnings per share of \$4.26 in 2017 and includes the estimated reduction of approximately 2% of the projected underlying effective tax rate associated with the recent U.S. tax legislation. The 13% to 15% projection range of growth in 2018 adjusted earnings per share is expected to include an estimated one percentage point favorable impact from currency. The impact of favorable currency is expected to be greater in the first half of the year than in the second half. For fiscal year 2018, the company projects another year of strong cash flow, with plans to return a significant portion to McCormick shareholders through dividends and to pay down debt.

Business Segment Results

(in millions)	Three months ended		Twelve months ended	
	11/30/2017	11/30/2016	10/31/2017	10/31/2016
Net sales	\$ 303.3	\$ 250.0	\$ 1,276.1	\$ 1,072.0
Operating income, excluding special charges, transaction and integration expenses	207.3	181.8	586.2	481.6
Operating income, excluding special charges, transaction and integration expenses	255.3	182.8	564.2	493.8

The company grew consumer segment sales 20% when compared to the fourth quarter of 2016. In constant currency, sales rose 19% with increases in each of the company's three regions.

- Consumer sales in the Americas rose 25% from the year-ago period. In constant currency, sales rose 24% with RB Foods contributing 17% to sales growth. The company also increased sales driven by pricing, new products and expanded distribution. Growth was achieved across the branded portfolio including McCormick and Lenny's spices and seasonings, McCormick rice mixes and breakfast products and Gourmet Garden products as well as in private label.
- Fourth quarter consumer sales in Europe, Middle East and Africa (EMEA) increased 20% in constant currency, sales rose 2% with RB Foods contributing 1% to sales growth. The base sales growth was led by Curcio and Vavaro branded products driven by pricing and higher volume.

• Consumer sales in the Asia/Pacific region rose 6% and in constant currency, sales rose 4% from the year-ago period. The sales growth was led by Curcio and Vavaro.

Consumer segment operating income, excluding transaction and integration expenses and special charges, rose 20% to \$225 million for the fourth quarter of 2017 compared to \$192 million in the year-ago period. In constant currency, it rose 20%. The favorable impact of higher sales and COI-net cost savings more than offset the unfavorable impact of increases in material costs and brand marketing.

Industrial Segment

(in millions)	Three months ended		Twelve months ended	
	11/30/2017	11/30/2016	10/31/2017	10/31/2016
Net sales	\$ 114.6	\$ 61.4	\$ 484.0	\$ 1,033.1
Operating income	64.6	36.2	194.4	155.4
Operating income, excluding special charges, transaction and integration	75.1	22.5	202.1	162.3

In constant currency, sales increased 25% from the fourth quarter of 2016. In constant currency, the industrial segment grew sales 22%, with significant increases in each of the company's three regions.

- Industrial sales in the Americas increased 25% from the year-ago period. In constant currency, sales rose 24% with incremental sales from RB Foods contributing 15% to sales growth. This growth was led by increased sales of snack seasonings in the U.S. and Mexico, a double-digit increase in savory flavor products and continued growth in branded foodservice.
- EMEA industrial sales grew 33% in the fourth quarter. In constant currency, sales rose 31%, with acquisitions contributing 22% driven primarily by Galt. Sales in both quick service restaurants and packaged food companies increased during the period. Industrial sales in this region were unfavorably impacted by the discontinuation of a lower margin business.

Consolidated Cash Flow Statement

in millions

	Twelve Months Ended	
	November 30, 2017	November 30, 2016
Operating activities		
Net income	\$ 477.4	\$ 472.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	152.2	108.7
Stock-based compensation	21.8	25.6
Special charges and transaction and integration expenses	14.1	7.2
Amortization of financing fee value adjustments associated with acquisition of 3iB Foods	20.9	—
Loss on sale of assets	1.2	1.5
Deferred income tax expense (benefit)	24.1	(46.0)
Income from discontinued operations	(31.3)	(24.1)
Elimination of foreign currency related cash receipts	(1.8)	—
Changes in operating assets and liabilities	156.0	81.5
Dividends from unconsolidated affiliates	21.6	37.4
Net cash flow provided by operating activities	\$ 815.3	\$ 682.4
Investing activities		
Acquisition of businesses	(6,327.4)	(120.0)
Proceeds from exit of consolidated joint venture (net of cash paid of \$0.0)	—	4.2
Capital expenditures	(182.4)	(113.1)
Proceeds from sale of property, plant and equipment	6.1	1.7
Proceeds from insurance	8.4	1.4
Net cash flow used in investing activities	\$ (6,595.1)	\$ (225.8)
Financing activities		
Short-term borrowings, net	(134.0)	251.7
Long-term debt borrowings	2,082.0	6.0
Payment of debt insurance costs	(7.7)	—
Long-term debt repayments	(272.7)	(202.0)
Proceeds from restricted stock sales	24.2	24.9
Taxes withheld and paid on employee stock awards	(5.0)	(3.1)
Payment of contingent consideration	(10.7)	—
Purchase of minority interest	(1.2)	—
Issuance of common stock (see voting list of insurance costs of \$0.0)	154.6	(42.7)
Common stock repurchased by purchase	(119.8)	(177.2)
Dividends paid	(70.2)	(117.2)
Net cash flow provided by (used in) financing activities	\$ 766.2	\$ (128.4)
Effect of exchange rate changes on cash and cash equivalents	5.4	(13.1)
Increase in cash and cash equivalents	88.4	21.8
Cash and cash equivalents at beginning of period	118.4	114.6
Cash and cash equivalents at end of period	\$ 206.8	\$ 136.4

See original content <http://www.southern.com/newsroom/financial-information/2017/annual-cash-flow-and-liquidity-growth-outlook-by-2018-2022-11-16>

SOURCE: McCormick & Company, Incorporated