



McCormick Reports Double Digit Second Quarter Sales and Profit Growth

June 28, 2018

SPRINGVILLE, Pa., June 28, 2018 /PRNewswire/ -- McCormick & Company, Incorporated (NYSE:MKC), a global leader in flavor, today reported financial results for the second quarter ended May 31, 2018 and reaffirm its latest financial outlook for fiscal year 2018.

- Sales rose 19% in the second quarter from the year-ago period. In constant currency, the company grew sales 18%, with strong results in both the consumer and flavor solutions segments.
- Operating income was \$12 million in the second quarter compared to \$13 million in the year-ago period. Adjusted operating income was \$28 million, a 5% increase from \$17 million in the second quarter of 2017, and a 4% increase in constant currency.
- Earnings per share was \$0.21 in the second quarter as compared to \$0.20 in the year-ago period. Adjusted earnings per share rose 24% to \$0.22 from \$0.22 in the year-ago period.
- McCormick reaffirmed its 2018 sales, operating income and earnings per share guidance.

Chairman, President & CEO's Remarks

Laurance E. Kurita, Chairman, President and CEO, stated, "McCormick's strong second quarter and year-to-date results reflect the successful execution of our strategies. We delivered double-digit sales, adjusted operating income and adjusted earnings per share growth as well as significant operating margin expansion. Both our consumer and flavor solutions segments contributed to our constant currency sales growth of 18%. Growth in both segments was led by incremental sales from the Franch's and Franch's portfolio. Consumer segment sales growth was also driven by both American and Asia/Pacific base business and new products, with particular strength in China. Our additional flavor solutions segment growth was driven by increased base business and new product sales in flavors as well as branded foodservice business growth in the Americas region. Across both of our segments, the solid growth from our core business and the performance of Franch's and Franch's was in-line with our plans and we are pleased with our momentum heading into the second half of the year."

"McCormick is a global leader in flavor with a broad and advanced global portfolio which continues to grow and position us to fully meet the demand for flavor around the world. All over the world, people desire great tasting foods and drinks with real, authentic flavor. And we deliver flavor across all markets and through all channels. We are focused on growth, delivering against our objectives, strengthening our organization and building the McCormick of the future. Through the execution of our strategies, we are becoming even better positioned to drive future growth and are confident in our continued success. We are building our resources and efforts to drive sales with our work to lower costs led by our Continuous Cost-Reduction (CCR) program."

"As part of our long-term strategy, we are focused on driving growth through innovation, performance, and people, and we are confident in our continuing momentum for growth in 2018 to deliver strong financial results and build value for our shareholders."

Second Quarter 2018 Results

McCormick reported a 19% sales increase in the second quarter from the year-ago period, including a 3% favorable impact from currency. Sales from the acquired Franch's and Franch's brands added 13% to the sales increase. Consumer segment sales grew by 20%, including a 4% favorable impact from currency and 14% from the incremental impact of Franch's and Franch's. The remaining increase was primarily driven by the Americas and Asia/Pacific regions. Flavor solutions segment sales grew by 15%, including a 3% favorable impact from currency and 12% from the incremental impact of Franch's and Franch's. The remaining sales increase was driven primarily by the Americas region. In constant currency, the company grew sales 18%.

Operating profit margin increased 261 basis points versus the year-ago period. The expansion was driven by CCR cost savings and full utilization of the portfolio to drive sales-related benefits, including the impact of Franch's and Franch's portfolio. Operating income was \$12 million in the second quarter compared to \$13 million in the year-ago period. This increase was due to higher sales and gross margin expansion, offset in part by an increase in distribution expenses, brand marketing and special charges as well as transaction and integration expenses from the RB Foods acquisition. The company recorded \$8 million of transaction and integration expenses in the second quarter of 2018 versus \$2 million in 2017. Excluding transaction and integration expenses as well as special charges, adjusted operating income was \$28 million compared to \$17 million in the year-ago period. In constant currency, the company grew adjusted operating income 4%.

Earnings per share was \$0.21 in the second quarter of 2018 compared to \$0.20 in the year-ago period. Transaction and integration expenses as well as special charges decreased earnings per share by \$0.03 in 2018. Special charges lowered earnings per share by \$0.03 in 2017. Excluding these impacts, adjusted earnings per share was \$0.22 in the second quarter of 2018 compared to \$0.22 in the year-ago period. The increase in adjusted earnings per share was driven primarily by higher adjusted operating income partially offset by higher interest expense and share outstanding. This increase in adjusted earnings per share also includes the favorable impact of foreign currency rates.

The company continues to generate strong cash flow. Year-to-date net cash provided by operating activities through the second quarter of 2018 was \$25 million compared to \$17 million through the second quarter of 2017. The increase was mainly due to sales payables on our recent acquisition date.

2018 Financial Outlook

McCormick reaffirmed its 2018 sales, operating income and earnings per share guidance. In 2018, the company expects to grow sales 18% to 19% compared to 2017, including net percentage points favorable impact from currency rates. 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. The company has plans to achieve at least \$100 million of cost savings and intends to use these savings to improve margins, fund an increase in brand marketing, and to acquire additional businesses.

The company reaffirmed its estimated operating income for 2018 by 20% to 24% from \$702 million of operating income in 2017. Transaction and integration expenses from the RB Foods acquisition of approximately \$23 million are currently projected to impact operating income for 2018. Special charges of approximately \$18 million are currently projected for 2018. 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 \$736 million in 2017. The growth includes an estimated net percentage point favorable impact from currency.

McCormick projects 2018 earnings per share to be in the range of \$0.22 to \$0.27, consisting of an estimated net favorable non-recurring impact of the U.S. Tax Act, partially offset by the estimated effects of transaction and integration expenses related to RB Foods and of special charges. The company projects 2018 adjusted earnings per share to be in the range of \$0.25 to \$0.30. This is an increase of 14% to 16% from adjusted earnings per share of \$0.24 in 2017 and includes an estimated net 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 reinvest significant portions of McCormick's shareholdings through dividends and to pay down debt.

Business Segment Results

Consumer Segment	Three months ended	Year-to-date	12 months ended
(in millions)	2018	2018	2017
Net sales	\$1,008	\$3,924	\$3,250
Operating income, excluding special charges, transaction and integration expenses	124.1	31.3	35.3

The company's year-over consumer segment sales rose 20% when compared to the second quarter of 2017. In constant currency, sales rose 14%, with increases in each of the company's three regions.

- Consumer sales in the Americas rose 23% compared to the second quarter of 2017. In constant currency, the increase was 22% with Franch's and Franch's contributing 17%. The remaining 5% growth was led by the increased sales of flavors as well as branded foodservice. Sales in this region were strong despite the exit of lower margin business, lower pricing and the impact from a global realignment of a major customer's sales from the EMEA region.
- Consumer sales in Europe, Middle East and Africa (EMEA) increased 14%. In constant currency, sales increased 2% from the year-ago period driven by Franch's and Franch's. The remaining sales growth was flat with volume growth led by France offset by trade promotional activities.
- Second quarter consumer sales in the Asia/Pacific region rose 15% and in constant currency, sales rose 7%. The sales growth was led by China.

Consumer segment operating income rose 44% to \$13 million in the second quarter of 2018 compared to \$9 million in the year-ago period. In constant currency, operating income rose 40%. The favorable impact of higher sales, including favorable mix, and CCR-led cost savings more than offset the unfavorable impact of increases in brand marketing and higher costs.

Flavor Solutions Segment

(in millions)	Three months ended	Year-to-date	12 months ended
	2018	2018	2017
Net sales	\$ 443.9	\$ 1,673.9	\$ 1,424.4
Operating income, excluding special charges, transaction and integration expenses	76.8	46.0	13.2

Flavor solutions segment sales increased 15% from the second quarter of 2017. In constant currency, the flavor solutions segment grew sales by 12% driven by the Americas and EMEA regions.

- Flavor solutions sales in the Americas grew 23% from the year-ago period. In constant currency, the growth was 22% with sales from the Franch's and Franch's brands contributing 17%. The remaining 5% growth was led by the increased sales of flavors as well as branded foodservice. Sales in this region were strong despite the exit of lower margin business, lower pricing and the impact from a global realignment of a major customer's sales from the EMEA region.
- Second quarter flavor solutions sales in EMEA rose 12% and in constant currency, sales rose 7%. The Franch's and Franch's brands contributed 1% to sales growth. The remaining growth included the impact from a global realignment of a major customer's sales from the Americas partially offset by lower pricing.
- Second quarter consumer sales in the Asia/Pacific region increased 5% in the second quarter of 2018 versus the same period in 2017 but in constant currency, sales decreased 2%. The decline was driven by the exit of lower margin business and lower pricing.

Flavor solutions segment operating income rose 47% to \$13 million in the second quarter of 2018 compared to \$9 million in the year-ago period. In constant currency, operating income rose 40%. The favorable impact of higher sales, including favorable mix, and CCR-led cost savings more than offset the unfavorable impact of increases in brand marketing and higher costs.

Non-GAAP Financial Measures

The tables below include financial measures of adjusted operating income, adjusted operating margin, adjusted net income and adjusted diluted earnings per share, each including the impact of special charges for each of the periods presented. These financial measures also include the impact of items associated with our acquisition of RB Foods on August 17, 2017 as these items significantly impact comparability between years. These financial measures exclude, for 2018 and the comparison of our results for 2018 to 2017, the net estimated impact of the effect of the one-time transition tax on the re-measurement of our U.S. deferred tax assets and liabilities as a result of the U.S. Tax Act passed in December 2017 as these items will significantly impact comparability between years. Adjusted operating income, adjusted operating margin, adjusted net income, adjusted diluted earnings per share represent non-GAAP financial measures which are prepared as a complement to our financial results prepared in accordance with United States generally accepted accounting principles.

Our non-GAAP financial measures are not intended to constitute an offer of securities, nor are they intended to constitute an offer of securities. Special charges consist of expenses not attributable to the company to reduce fixed costs, simplify or improve processes, and improve our competitiveness and use of assets (efficiency in terms of both our fixed costs and organizational resources) and impact to require advance approval by our Management Committee, composed of our Chairman, President and Chief Executive Officer. Excluding the President and Chief Executive Officer, President Flavor Solutions Segment and McCormick International President Consumer Segment and American Senior Vice President, Human Resources, and Senior Vice President, Strategy and Global Enablement. Upon presentation of any such proposed action (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 may include a non-cash component or a component which relates to inventory adjustments that are included in cost of goods sold, investment in employee or operations, expected timing and expected benefits to the Management Committee and the Committee) advance approval expense associated with the proposed action are classified as special charges upon recognition and recorded as an on-going basis through completion.

Transaction and integration expenses consist of expenses associated with the acquisition or integration of the RB Foods business. These costs primarily consist of amortization of the acquisition-date fair value adjustments of intangible assets, and other costs related to the acquisition, including the costs related to the bridge financing commitment that was included in our initial debt costs in 2017. We incurred these costs in 2017 and will incur additional integration costs in 2018. Income taxes associated with the enactment of the U.S. Tax Act in December 2017 consist of a net income tax benefit of \$227.8 million recognized during the third quarter of 2018, which includes the estimated impact of the tax benefit from inclusion of the tax benefit from inclusion of the net corporate income tax rate and the tax expense associated with the one-time transition tax on previously unremitted earnings of non-U.S. subsidiaries.

We believe that these non-GAAP financial measures are important. The exclusion of special charges, the impact of the acquisition date inventory fair value adjustment on cost of goods sold, transaction and integration expenses, other debt costs and the net income tax benefit associated with enactment of the U.S. Tax Act provides additional information that enables enhanced comparisons to prior periods and, accordingly, facilitates the development of more projections and earnings growth prospects. This information is also used by management to assess the probability of our ongoing operations and analyze our business performance and trends. The inclusion of these non-GAAP financial measures may not be comparable to similarly titled 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.

