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MKC - McCormick & Company Inc at Barclays Global Consumer Staples Conference

EVENT DATE/TIME: SEPTEMBER 10, 2015 / 3:15PM GMT



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PRESENTATION

Unidentified Participant

We are very pleased to yet again be hosting McCormick at our Global Consumer Staples Conference. McCormick has long enjoyed a unique and advantaged market position within packaged food.

And while it's experienced some challenges over the past two years or so, after taking discreet actions, its key US consumer business appears to be heading in the right direction. Meanwhile, after a nearly two-year M&A hiatus, the Company has already made three acquisitions this year both in the US and abroad.

On that note, we're excited to welcome Executive Vice President and CFO Gordon Stetz, COO and President Lawrence Kurzius, Vice President of Corporate Finance and Senior Vice President Mike Smith, and Vice President of Investor Relations Joyce Brooks who all of you know well.

One reminder, McCormick will not host a breakout session today as they are in their quiet period. And with that, I'll turn it over to Lawrence.

Lawrence Kurzius - *McCormick & Company, Inc. - COO & President*

Thanks for that introduction, Andrew. We appreciate this opportunity to participate once again in Barclays Global Consumer Staples Conference. The message we want to deliver today is that McCormick is well-positioned for growth with consumer demand for flavor and healthy eating continuing to increase in markets around the world.

During our presentation, we'll be making forward-looking statements. Please keep in mind that our actual results can vary from these projections. The statement on this slide and in our annual report and website contained additional information regarding business risks.

McCormick has had a long history of flavor leadership and high performance, performance that includes 6% compound annual sales growth for the past five-year period. We're delivering strong EPS growth with an increase of more than 40% in the last five years, and cash flow that is strong, exceeding \$500 million in fiscal year 2014.

Taking a look at the past 1-, 5-, 10-, and 20-year periods, our total shareholder return has increased at a double-digit rate, and our global presence is expanding with more than 10,000 employees around the world engaged in our high-performance culture and driving our success.

In our consumer business segment, we are delivering flavor with leading iconic brands as well as specialty niche products. Across all of these brands, our products reached more than 135 different countries and territories. As evidence of our leadership position, 60% of consumer business sales are from products that are number one in their category.

Our products range from premium gourmet to value-priced items, including private label. For these reasons, retail customers regard McCormick as a clear category leader. With our leadership position and growth strategies, we've increased sales for this business segment at 31% in the last five years, and achieved a steady increase in adjusted operating income. We reach additional markets through our joint ventures. These businesses accounted for 7% of net income in 2014, led by McCormick de Mexico.

Our industrial business team is supplying one of the broadest ranges of flavor solutions in the industry. We can provide great taste every day no matter what you eat or where you are eating. McCormick's industrial customers include most of the top food and beverage companies, as well as leaders in the restaurant industry.



We support the global growth of these customers from locations around the world. In fact, this was the catalyst for our business in China more than 25 years ago. Over the years, we have established a presence in the developing world including South Africa, Turkey, Brazil, and we just broke ground on a new facility in the Middle East allowing us to innovate and grow with these industrial customers. In the past five years, we've increased sales for the industrial business by 21%, and adjusted operating income by 25%.

Across both business segments and their joint ventures, we consider our portfolio to be advantaged. Our categories are on trend and aligned with how we are eating, exploring new flavors and ethnic cuisines, using fresh, simple ingredients, thinking more about the source and quality of our food, and making the connections between food and wellness.

McCormick products appeal to a broad demographic group that crosses generations, gender, and ethnicity. Research shows that we index strongly with Millennials. In the US, the household penetration of our products with millennials is similar to other generations.

While we have a diverse portfolio of flavors, the foundation of our business is spices and seasonings, which account for about half of our consumer business sales. Globally, we're a strong leader in this \$10 billion category with a 22% share, four times the size of our next largest competitor.

Euromonitor projects that the spice and seasoning category will increase globally at a mid-single-digit compound annual rate for the next five years. In developed markets, the projected increase is 4%, and in emerging markets, 9%. Despite the recent economic slowdown in certain countries, we see huge long-term growth potential in emerging markets.

While spices and seasonings as a packaged food category is \$10 billion in retail sales, we believe that another \$10 billion of product is sold in bulk in emerging markets. With the rise of middle income consumers in emerging markets, demand for the quality and the convenience of packaged spices and seasonings is also increasing. We are working to meet this demand for our current base of business and through acquisitions.

In 2014, McCormick's sales in emerging markets accounted for 17% of total sales, up from just 10% just three years prior. If you include our share of joint venture sales, the number moves to 22%.

I want to spend a minute on the connection between our products and wellness. Consumers generally regard spices and herbs as good for you. University studies supported by the McCormick Science Institute reinforce this idea with a focus on diet quality, including sodium levels, and inflammation and weight management.

Other studies have examined how red pepper can enhance energy metabolism, and how flavor from spices and herbs can make healthier foods that are lower in fat and calories more acceptable to consumers.

We are making exciting progress on using herbs and spices to reduce sodium. A recent study showed that adults who used herbs and spices instead of salt significantly reduced sodium intake, consuming 950 milligrams less per day than their self-directed counterparts.

This message is starting to resonate. Just a foreign exchange months ago, the US dietary guideline -- sorry, the US Dietary Guidelines Advisory Committee recommended to the federal government that the 2015 guidelines encourage the use of spices and herbs as a flavor alternative to sodium.

In addition, the USDA issued two new messages in July. The first was for school nutrition professionals. The number one recommendation is to use herbs and spices for more appealing taste and a way to reduce sodium. And in fact, the new tag line for their message is, "Spice It Up."

The second message was for people 65 and older. In this generation of consumers, one of the 10 recommended steps to choosing healthy meals is to use herbs and spices to compensate for changes in the sense of smell and taste.

The scope of our wellness message is global, and some countries are ahead of the US with spices and herbs already on the food pyramid in Australia, for example.



While McCormick operates in advantaged categories with a leadership position, our business is not without challenges. In 2015, we are facing mid-single-digit material cost inflation, higher pension cost that relates to the low interest rate environment, and an increasingly significant impact from unfavorable currency rates, including the impact on our unconsolidated joint venture income.

While we have had strong first half performance in many parts of our business, we have some challenges. In our US consumer business, our sales of spice and seasonings have been impacted by fragmentation along with many other food categories with retailers giving shelf space to some smaller brands. We recognized this early and adapted quickly as I'll discuss.

Our Kohinoor acquisition in India has performed below our plan, and we are taking aggressive improvement actions. And in our China industrial business, over the last two years we have encountered fluctuating demand from large quick service restaurant customers attributable to the impact of bird flu and some well-publicized quality issues from other suppliers. This has caused some fluctuation in our sales to these customers. We have an experienced leadership team and are effectively managing this situation with strong year-to-date growth in 2015 for both our consumer and industrial businesses in China.

In this environment, it is crucial that we execute on strategies that differentiate us from the competition and win with both customers and consumers to drive profitable sales growth. We want to focus on three of the strategies underway at McCormick, building brand equity, accelerating innovation, and expanding through acquisitions.

McCormick is investing in brand marketing to drive sales and has increased this investment 54% in the last five years. This decision is based on positive ROI, returns we are achieving that are at or above industry averages. Increasingly, our efforts are directed towards digital marketing, which we expect to comprise one-third of our global advertising mix this year. This is up from 11% in 2010.

Digital marketing creates a direct connection with consumers, offering personalized recipes, building awareness for new products like our new squeeze pouch ketchup in China, and social communities where we are fostering stories for iconic brands like Old Bay in the US, or our Vahine brand in France. Globally, we have nearly 50 websites to connect consumers to our leading brands.

We have had exceptional results in a number of markets, including here in the US. Our mccormick.com site has moved to a top 40 recipe destination up from 175th in 2012 with 30 million visitors and 40 million recipe views in the past 12 months. In addition, we have the largest online grilling community with more than a million consumers.

And we just received the results of the latest Digital IQ Index, which scores companies on a number of factors including ecommerce effectiveness, digital marketing presence, and social media community size, content, and engagement. On these factors, McCormick ranked number five out of 114 food brands in the US market.

Digital has been just one component of a comprehensive 2015 grilling campaign in the US. Elements of this year's campaign include new digital content, a great television commercial, new product varieties, our latest grilling flavor forecast, and compelling in-store displays and execution by our sales team.

Our second-quarter results included a 9% year-on-year increase in sales of Grill Mate products, and the success continued throughout the summer season. Across all media and regions, our 2015 brand marketing includes messages to build awareness and trial of new products, communicate easy ways to prepare healthy and delicious meals, and emphasize the purity and freshness of our products.

That last message on freshness and purity is something you will be hearing more about from McCormick. Our global procurement team goes right to the source, 40 countries around the world, to purchase the best spices and herbs. We know the origin and control the quality of our products.

This is an important point of differentiation for McCormick. The many competitors that are buying from a broker or wholesaler are subject to product contamination and the risk of recall as we recently saw with ground cumin that contained peanut shells. We were able to reassure our consumers of the purity of our cumin.

Our message to consumers is that pure tastes better. I want to show you how we will be directly educating consumers about McCormick's product purity. Let's take a look.

(Video playing)

To further build on our brand equity in the US, we just announced that by this time next year, over 70% of McCormick brand spices, herbs and extracts in the US will be labeled non-GMO. Many of our products are already non-GMO, and now our labels will show it. Appearing on retail shelves right now is our first product to carry the non-GMO designation, McCormick brand vanilla extract. This is a point of difference from many other brands.

In addition to this news on non-GMO, by this time next year, we expect 80% of our McCormick gourmet brand sales to be organic, up from the current level of 10%. We see these moves, digital marketing, purity message, non-GMO and organic as a means to not only build our brand equity with consumers, but to further strengthen the value of our brand to our retail partners.

Before I share our news on innovation, I want to share my thoughts on our US retail relationships. What began as a response to competitive inroads in early 2014 has evolved to a stronger sales organization, new sales leadership, and more sophisticated category management analytics that are just now coming together.

Our initial efforts related to narrowing price gaps followed by assisting retail customers in achieving target price points of McCormick through databased recommendations. In the last year, we've increased our investment in category tools five fold. Our focus is centered on price modeling and assortment optimization across our top categories.

This quarter, with an expanded team, we are mobilizing our insights and tools to optimize sales and profits for us and for our customers. I'm encouraged by the work done to date, and we're seeing this in our recipe mix category, and by the progress we reported through the second quarter for spices and seasonings.

Our work with customers extends across channels including ecommerce. We have dedicated resources in place for this rapidly growing channel in the US and in other markets, and were pleased just a few weeks ago to be named by Amazon as supplier of the year for grocery.

Let's move next to innovation. In recent years, 8% to 10% of annual sales came from products launched in the last 30 years. At our 18 technical innovation centers around the world, we have leading capabilities that include sensory, culinary, flavor development, flavor application and ideation.

For those of you who have had a chance to visit our facility in Maryland, the global hub of this activity, you've had a chance to see it in action. First launched in 2000, our Flavor Forecast is an annual look at emerging culinary trends and tastes shaping how consumers across the world view and experience flavor, inspiring creative and delicious innovation. This work serves as a catalyst for both our consumer and industrial businesses.

For our consumer business, we set our future direction for innovation through our global consumer strategy council, identifying opportunities that translate across borders. Early examples included grinders and slow cooker recipe mixes. Our latest platforms include gluten-free recipe mixes and liquid skillet sauces.

Both of these products are now launched in North America. Sales of gluten-free recipes mixes are bring new consumers to the category. And for skillet sauces, in just one year we have built more than a 10% category share in the US. We believe this innovation will play well in other markets.

In the US, this innovation within recipe mixes has been part of our success in achieving 22 consecutive months of share gain. Flavor products for grilling is another platform we're building in multiple markets. It all started in Canada with the La Grille brand, now celebrating its 25th year. In the US, we took the concept of grilling seasonings and created what is now a distinct segment of the category with our Grill Mates brand.



Today, McCormick leads in grilling flavors with seasoning blends, dry marinades, wet marinades, dry rubs, and now premium barbeque sauces. Outside North America, we've expanded our grilling products to markets in Australia and across Europe. We're having particular success in Poland and Russia. And let's take a look at this ad from Poland.

(Video playing)

(Inaudible) consumers seek out gourmet offerings. And in France, we introduced a line of gourmet spices and herbs in 2013 with 56% of sales incremental to the category. This range of products is growing 10% year on year. And in 2015, we launched gourmet pepper grinders and new roasted spices in this range.

In the US, we relaunched our entire gourmet line this year with on-trend packaging, a flavor seal technology, and new varieties. This led to consumption of 4% in the second quarter. And as I mentioned, our next move is to transition the majority of these products to organic in 2016.

[Hitting] retail sales this quarter in the US is a breakthrough innovation for herbs, Herb Grinders. Herb Grinders deliver the flavor and freshness of fresh herbs when you want it. The herbs are in larger pieces and gently dried through a proprietary process we developed that protects color and flavor. The grinding process awakens the fresh herb flavor.

We're excited about the results of this in our consumer testing. In trial, two-thirds of consumers used the grinder every three days with applications occurring before or during meal preparation as well as at the table. This is a significant opportunity for us to convert consumers who currently purchase fresh packaged herbs to our new grinders. Our global consumer team anticipated rolling out this great concept to other markets in 2016 and 2017.

While we have a number of compelling global platforms for innovation, new products are also driving growth above regional leaders, and include products like the squeeze pouch ketchups in China, Aeroplane brand desserts in Australia, and Kitchen Basics stock cubes here in the US.

For our industrial business, there is an even great pace of innovation. Think about the variety of new snacking products being introduced, especially snack bars or the number of limited time menu items in restaurants. Much of this innovation is being shaped by efforts to improve the health and wellness of products, whether it is a reduction in sodium or fat or sugar, or a move towards simpler ingredients.

In recent years, one-third of our new product projects have had some type of health and wellness attribute. While we have a number of competitors for our industrial business, McCormick's foundation in spices and herbs makes us a go-to partner for this type of product reformulation and innovation.

Success with innovation with these customers means going being the table stakes of high-quality and exceptional customer service. We are building customer intimacy with one of the broadest ranges of flavor solutions in the industry, sensory and culinary capabilities that deliver consumer-preferred products, and a development process that accelerates speed to market. This creative process shortens the product development cycle for our top customers from weeks to days.

I've discussed how we're driving growth through brand marketing and innovation. The third avenue of growth is acquisitions. At this point, it is my pleasure to turn it over to Gordon to discuss our recent acquisition activity and our prospects, followed by remarks about our CCI program and financial outlook. Gordon?

Gordon Stetz - McCormick & Company, Inc. - EVP & CFO

Thanks, Lawrence. And I'd like to thank Andrew for inviting McCormick to participate today. As Lawrence indicated, acquisitions have been and continue to be an integral part of McCormick's growth strategy, accounting for about one-third of the sales increase for the past five years.

We have a long history of acquisitions, and with a steady stream of businesses added since 2003, expanding our flavor portfolio with products like Zatarain's New Orleans Style products in the US, and Billy Bee Honey in Canada.

In recent years, we've broadened our regional presence with acquisitions in India, Eastern Europe, and in Central China. In China, we acquired Wuhan Asia-Pacific Condiments in 2013. A leader in bouillon in Central China, this business has been exceeding our projections for both sales and profits. We are driving double-digit sales growth through brand-building activities, great in-store execution, and geographic expansion, including cross-selling opportunities for the McCormick and WAPC Daquio products as illustrated on this map.

In 2015, we have completed three acquisitions, Brand Aromatics, Drogheria & Alimentari, and Stubb's. All three are great additions to our portfolio. Brand Aromatics is an industrial business based in New Jersey, but expands our breadth of flavor solutions to value-added, natural savory flavors, marinades, and broth and stock concentrates. With net sales of approximately \$30 million, the business adds a new production capability with a USDA manufacturing facility. It has packaged food customers that complement McCormick's industrial customers.

We have already begun to leverage this business to compete more aggressively in the natural, organic, and non-GMO space with our industrial customers. We also see opportunities for these flavor capabilities in our consumer business.

Founded in 1880, Drogheria & Alimentari is a spice and seasoning leader in Italy with approximately one-third of the category share. In that market, the business is a supplier of both brand and private label products. Its products are also exported to 60 other countries.

Annual sales of this business are approximately \$55 million, and growing at a mid-single-digit rate. We anticipate strong growth for this premium brand, particularly in the US and key international markets where consumers are seeking unique and authentic ethnic flavors.

In August, we completed another attractive deal, the acquisition of One World Foods, seller of Stubb's. Based in Austin, Texas, Stubb's is the number one brand of premium, authentic barbeque sauce in the US. Products for this business also include marinades, rubs, and skillet sauces, and are a perfect complement to our lineup of leading grilling products, marketed under the Grill Mates, Lawry's and McCormick brands.

Annual sales of Stubb's are approximately \$30 million, and exceeded 20% growth in both 2013 and 2014. We expect to further drive a high-rate of growth through expanded distribution, increased household penetration, and innovative flavors.

Looking forward, we have a great pipeline of acquisitions. This Euromonitor definition of flavor categories provides a good sense for the scope of businesses that are candidates. We will continue to focus on our two global growth platforms of spices and seasonings and recipe mixes as we expand geographically.

However, we are also building out our portfolio with other categories such as sauces and stock. Those areas shown in gray are categories where we already participate in one or more markets. I want to assure you that we will remain financially disciplined with EVA, economic value added, being a primary factor in our decision process for acquisitions and other investment decisions at McCormick.

Acquisitions are an integral part of our sales growth algorithm. Our goal is to grow sales 4% to 6% annually with about one-third of the increase from our base business through category growth and our work to gain share, another third from innovation, and a third from acquisitions.

As Lawrence showed, our five-year compound annual growth rate supports this goal, and we are tracking well in 2015 with constant currency sales up 5% through the end of the second quarter. While we are squarely focused on driving sales, we are balancing our resources to also achieve greater productivity and improve profitability.

McCormick's comprehensive continuous improvement program, CCI, is our ongoing effort to improve productivity across the business. This program spans a range of projects from global procurement efforts to manufacturing where our employee teams are reducing losses, improving production efficiencies, and improving quality.

We are also streamlining administrative activity. CCI is our fuel for growth with cost savings of this plan used to fund great investment and brand marketing, increase profitability, and in some years help offset steep input cost inflation.



As seen on this chart, McCormick has a long history of generating cost savings. Since inception of our CCI program in 2009, cumulatively we have delivered annual savings of nearly \$350 million. In 2015, we stepped up our activity with a goal to reduce cost at least \$85 million, which is more than 3% of cost of goods sold.

This includes \$20 million of expected benefits from reorganization and streamlining actions in both Europe and North America. In Europe, these actions include the transition to a shared service center in Poland. In North America, we have centralized certain support functions for the region, allowing the sales and marketing commercial teams to focus on our growth strategies.

Along with these cost reductions, we are adding resources for business development, greater sales analytics, and our CCI program. Together, these actions are designed not only to lower costs, but to make us more competitive, bring greater focus to winning with customers and consumers, leverage scale, and reduce complexity.

We also expect to continue with the strong pace of acquisitions you have seen in 2015, increase our retail customer engagement, and drive CCI cost savings. We anticipate cost savings from the actions in Europe and North America, net of investments and growth, to lower our selling, general, and administrative expense as a percent of net sales by 1 percentage point.

Underpinning our success with CCI, our growth strategies, and accomplishments throughout the Company are McCormick's employees. We have engaged employees throughout the organization, operating in a culture of collaboration, team work, and high performance.

Our Board and business leaders, including our global consumer and industrial strategy councils, will continue to shape our growth strategy and keep us agile in today's dynamic environment. The results are a strong, long-term financial track record. Over a 10-year period, we have had a steady increase in net sales and adjusted earning per share. Throughout this period, we have been steadfast in our investment in brand marketing, R&D, and other growth drivers. While year-to-year cash flow has fluctuated largely due to our raw material purchase patterns, over the long term, this too has increased.

Our first priority for cash is our dividend with 29 years of consecutive increases, followed by acquisitions and share repurchases. Our long-term objectives include 4% to 6% sales growth, and a 7% to 9% increase in operating income. We expect to achieve this higher rate of increased operating income through our CCI program, through greater scale especially in emerging markets, and our efforts to improve business mix.

Including the impact of our dividend, our goal is to deliver double-digit shareholder return. And as Lawrence indicated, we have achieved a double-digit return for the past 1-, 5-, 10-, and 20-year periods.

Let me summarize. McCormick leads in an advantaged category, flavor. Flavor is on-trend and on the rise. And increasingly, spices and herbs are a core element of healthy eating we are executing on growth strategies that differentiate us from the competition, strategies that are designed to win with both customers and consumers. And we are delivering high performance, fueling our growth with improved productivity throughout the organization.

Thank you for your attention, and I think we have some time for some questions. Andrew?

QUESTIONS AND ANSWERS

Unidentified Participant

Thank you, Gordon. Perhaps I'll start off with -- I think on the last conference call, you discussed that on a couple of key, let's call it a dozen core items in the US spice and seasoning range, getting to the right absolute price point on-shelf was actually a much more important factor than, let's say managing price gaps with respect to private label or other competitors. And that [could be] a big focus going forward. Is there a way to give us some perspective on where along that continuum you are with getting those dozen items nationally at the right price points?



Lawrence Kurzius - *McCormick & Company, Inc. - COO & President*

I think we made a lot of progress on that. And this has really be an initiative for us through the first have of the year. And is an ongoing effort. Obviously it's a customer by customer process to go through.

I think, Andrew, the other thing we indicated in that call that we had, as we continue to work on pricing and understanding the elasticity of our products and the incrementality of the return. both to us and to our customer, that we've added new tools in this area and additional resources, and really are moving in the period really starting this quarter forward with mutuals that enable us to better model the, really the entire category for our retail customer using their shopper data. And this is going to be the direction that we take forward into 2016.

Unidentified Participant

And I assume the effort around this is being pretty well-received by retailers? Because there are times where they can be somewhat intransigent on these sorts of things.

Lawrence Kurzius - *McCormick & Company, Inc. - COO & President*

It is. As is true of all things. You know, there are different degrees of sophistication among the customers. So some customers are well able to appreciate and embrace this kind of rigor, and others are not quite as far along, I'll say the analytical maturity curve.

Unidentified Participant

I guess most importantly, as you convert customers over to these, you know, the proper price points using the analytics that you've got in those areas where you've done it, what are you seeing develop? Are you seeing the kind of results that you'd expect?

Are some of these other smaller, fragmented players that got into the store in other aisles, are they -- are velocities decelerating there? Are some of them going away? Are retailers figuring out that probably wasn't the best move with other buyers outside of the aisle, putting it in random places in the store?

Lawrence Kurzius - *McCormick & Company, Inc. - COO & President*

Well, I think that's why we talk about, it's not just price points, it's also sort of -- you know, you can't have the conversation about the price point without having a conversation about assortment within the category. And so that discussion about what provides the customer -- sorry, the consumer the right level of variety in a store is important part of the conversation. And just what's incremental and what's not, and what's really value creating by (inaudible) for the category is an important part of the conversation. So yes, we are working that.

Competition is a reality. We're in a growing category. A lot of center store categories are not -- we've got great, attractive growth in our core categories. And so it continues to attract competition and competitive pressure. So there's certainly going to be ongoing work to do. I think that our initiatives are really showing thought leadership with our customers, and the kind of analytical tools that we're bringing to them are tools that the smaller competitors just can't access.

Unidentified Participant

With respect to assortment, I know one of the areas that some of these smaller players were getting some traction would be either on the premium end or on the value end, or perhaps ethnic varieties and things. All sort of options that McCormick can solve.

And part of this effort was just, I think, making sure retailers understood, you've got the gourmet line, we've got the ethnic line, you've got value. That's clearly part of this effort. But is that also starting to grab hold -- (multiple speakers)

Lawrence Kurzius - *McCormick & Company, Inc. - COO & President*

Yes, Andrew, that's a great question because a lot of the focus has been on the price point. But the other part of the competitive battle. I mean, that's just one part of the competitive battle. And this move that we're taking on our Gourmet Line for example, we've refreshed the entire range this year. It's got a much more contemporary look, the product and the package. It's just a better product for the consumer.

And now we're taking an additional step by converting that whole range to organic. It's really taken the competitive battle up a notch. It's taken away the reason for being for some of these smaller niche players.

Unidentified Participant

And how about, if you think about your China business, both industrial and consumer has been going very well obviously. In industrial you're lapping some of the easier comps from a year ago. And consumer is working out very well. You're working off of a smaller base, but given some of the macro backdrop that we're seeing there, anything we should look out for there, or have you seen less of an impact on your specific business there?

Lawrence Kurzius - *McCormick & Company, Inc. - COO & President*

I'm going to comment on this first, then I'll let Gordon speak to it as well. I was just in China, and we're certainly aware of the carnage around us that some of our peer companies are experiencing. Our business in China is really quite different. I'm speaking of our consumer business in particular. We've had a long presence there. It's a well-entrenched, recognized brand. I mean, the McCormick (inaudible) brand is very well recognized in China as famous China brand status.

And our distribution is not just in the modern trade as is the case with so many new entrants. When I say we're deeply entrenched, we've got a tremendous presence in the traditional trade as well. And beyond the coastal area of China into the interior. With the acquisition of Wuhan Asia-Pacific Condiments, we also got greater access to that interior portion and deeper access to the traditional trade. So we're feeling pretty good about it.

But we're still experiencing double-digit growth as we reported through the second quarter. I can't say anything about third quarter. But through that time period, our growth was good. Our teams are really optimistic about our prospects there. And the base of the business is actually starting to get pretty big. This year, China will be our second largest market in the world after the US.

Unidentified Participant

I'm going to see if there are any questions out in the audience. You have one, all right.

Unidentified Audience Member

I'm wondering if you can just speak to the moves that you're making to offset FX? So many of the commodities that you're buying aren't going to be dollar denominated (inaudible) margin pressure. But local competitors, maybe you're not taking up price. I'm just wondering how you're trying to deal with that.



Gordon Stetz - *McCormick & Company, Inc. - EVP & CFO*

In the current year we are experiencing FX pressures on a translation basis. We don't do any specific moves, and we try to give the investment community an understanding of the impact of the translation.

But you rightly point out that a lot of our input costs are dollar denominated. We do hedge against those costs depending on our view of what's going on in the market of anywhere from say a 6- to 18-month period. So we do have hedging activities to try and mitigate that impact.

But generally what we have to do in these types of environments, both commodity costs and FX pressures, is we have lean on our CCI program. And you heard in my comments that earlier this year we stepped it up this year to deal with a lot of these cost pressures. So we're targeting 3% cost of goods sold this year through CCI. We do look at pricing when we have to. It has to be done in the context of whatever competitive moves are out there. But we lean on CCI harder when we have these kind of pressures.

Unidentified Participant

And I think, just as a follow-up, the mid-single-digit inflation that you talked about, I think you said that was pepper. Can you just talk about what's happening there? And is it something that next year will normalize, and we're not going to see this kind of inflation?

Gordon Stetz - *McCormick & Company, Inc. - EVP & CFO*

Pepper doesn't move that quickly. I wish it did. But pepper goes through long-term cycles. And the growers have alternative crops that they can attend to. That's what happens. What happens is the vines don't get tended to, and as the price points go up, it becomes more an attractive cash crop, and then they'll start to tend to the vines. The problem is those vines take a number of years to regenerate. And we're kind of at that point right now. So it won't turn on a dime, but we're working hard to see if we can again blunt the force of that too.

Unidentified Participant

Okay, if that's it, please join me in thanking McCormick for being here today.

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