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PRESENTATION

Joyce Brooks - *McCormick & Company, Inc. - VP of IR*

Good morning. This is Joyce Brooks, Vice President of Investor Relations. Thank you for joining today's call for a discussion of McCormick's first-quarter financial results and our current outlook for 2016.

To accompany our call, we have posted a set of slides at IR.McCormick.com. (Operator Instructions). With me this morning are Lawrence Kurzius, President and CEO; Gordon Stetz, Executive Vice President and CFO; and Mike Smith, Senior Vice President, Corporate Finance.

During our remarks, we will refer to non-GAAP financial measures. These include adjusted operating income and adjusted earnings per share, but exclude the impact of special charges as well as information in constant currency. Reconciliations to the GAAP results are included in this morning's press release and slides.

As a reminder, today's presentation contains projections and other forward-looking statements. Actual results could differ materially from those projected. The Company undertakes no obligation to update or revise publicly any forward-looking statement whether as a result of new information, future events or other factors.

As seen on slide 2, our forward-looking statement also provides information on risk factors that could affect our financial results. It is now my pleasure to turn the discussion over to Lawrence.

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

Thank you, Joyce. Good morning, everyone. Thanks for joining us. McCormick's first-quarter results were a great start to the year. We created momentum with our growth strategies throughout 2015 and are building on this strength in 2016.



This strength was evident in our top-line growth. We grew constant currency sales 6% for our Consumer segment and 7% for our Industrial segment with increased base business, new products and acquisitions our three drivers of long-term sales growth.

We are improving gross profit margin and achieved a 70 basis point increase this period. This was a sequential increase from 30 basis points in the fourth quarter of 2015 and ahead of our expectations due in part to favorable product mix.

A big driver of the year-to-year improvement is cost savings from our Comprehensive Continuous Improvement program, CCI, and our organization and streamlining actions. Employees throughout the Company are improving productivity and we have greater confidence in our goal to achieve at least \$95 million of cost savings this year.

Under Mike's leadership, efforts are underway toward delivering the four-year \$400 million cost reduction target that we announced in February. We grew first-quarter adjusted operating income 12% from the year ago period on a constant currency basis led by the higher sales and increased gross profit margin.

We had initially planned a year-on-year increase in brand marketing this period, but shifted this timing to second quarter to better coincide with some of our new product launches. At the bottom line adjusted earnings per share of \$0.74 was up 6% from \$0.70 in the first quarter of 2015. This includes the unfavorable impact of foreign exchange rates and the underlying increase was quite strong.

These first-quarter results give us increased confidence in our ability to deliver our plans for constant currency growth of 4% to 6% for sales, 9% to 11% for adjusted operating income and 9% to 11% for adjusted EPS. Each of these growth rates is at or above our long-term objectives.

I'd like to comment next on the recent news about our proposal to acquire Premier Foods. Premier Foods is just one idea in McCormick's robust acquisition pipeline, one that would be a great addition to our business.

This acquisition would be consistent with our growth strategy, adding iconic brands that complement our product portfolio, increasing our current scale and presence in the UK market, and creating potential to drive growth through innovation, marketing and expanded international distribution.

We believe our offer is highly attractive for Premier Foods' shareholders and an opportunity to build value for McCormick's shareholders. At this stage, given UK regulatory restrictions, we are limited in what we can say beyond our recent announcement. Consistent with our acquisition strategy, we will be disciplined about returns and value creation for McCormick shareholders.

Now let's turn to a business update. Consumer demand for flavor is strong and on the rise. Across generations, flavor remains the number one driver of food decisions, especially among millennials.

Slide 6 shows the information we shared at the CAGNY conference and we were pleased to see similar survey results shared by other food companies, many of them customers of our Industrial segment.

While taste has remained a constant theme, the food industry has also seen some significant changes in consumer eating habits, particularly in the US. For these trends, McCormick is well-positioned to drive growth.

There are changes in how we eat. Consumers increasingly want to eat healthy and spices and herbs, the core of our business, are a healthy way to add flavor. We announced in January that the new 2015-2020 dietary guidelines for Americans point to herbs and spices as a way to reduce sodium in the diet. And we were pleased to see on February a new MyPlate for older adults cosponsored by AARP showing herbs and spices as one of seven recommended food and beverage groups.

We are changing what we eat. Fresh ingredients are on the rise. Consumers who are buying more fresh vegetables, seafood and meat are looking for both flavor and convenience. We are meeting this need with current products like Grill Mates, Recipe Mixes and Lawry's, and our latest innovation of liquid sauces and herb grinders.



Consumers are changing why they choose certain brands and products demanding greater transparency. We are addressing this demand with our message that pure tastes better and consumer information about McCormick's high-quality sourcing and manufacturing standard. As a next step in the US we are in the process of labeling over 70% of McCormick brand spices, herbs and extracts as non-GMO and transitioning 80% of our gourmet line to organic this year.

We are even changing when we eat. Snacking occasions have surpassed breakfast and lunch and now rival dinner. Here is where our Industrial segment steps in as a major supplier to packaged food companies, the largest being PepsiCo, that are focused on and building this part of their product portfolio. Our restaurant customers are also developing menu items to meet this demand.

Clearly McCormick is in a great position with a portfolio of leading brands and Industrial flavor solutions that are aligned with today's consumer and developing the insights to adapt to tomorrow's consumer.

I want to turn next to some specific remarks about the growth strategies underway and performance for each of our two segments. Let's start with the Consumer segment and our US business.

Category growth for spices and seasonings continues to be strong. In the most recent quarter, retail sales of McCormick brand spices and seasonings continued to grow reaching a 5% increase. Within this broader category, we grew our core McCormick brand spices and herbs at the category growth rate and we continue to see strong growth for our gourmet products with retail sales up 6% since our 2015 re-launch.

Across our entire US product portfolio, we have increased advertising 20% in the last two years and are achieving investment returns on our brand marketing that are ahead of industry benchmarks.

Digital marketing has particularly high ROI. In the fourth quarter, we launched our purity campaign which is gaining traction. The video has now been viewed more than 33 million times at a cost of just \$0.03 per view. Our video completion rate is 25%, exceeding the industry and our own historic average, and it is attracting traffic to our website as 43% of traffic coming from millennial.

This campaign will continue in 2016. In the second quarter, we will also have incremental marketing to build awareness and trial of our new Herb Grinders. Following the busy holiday period and Super Bowl event, we've reach critical mass with shelf placement at retail and are now ready to launch our marketing support for this innovative and differentiated product.

The latest product launches that we are rolling out include our first line of organic recipe mixes, liquid Grill Mates marinades, Zatarain's microwavable rice cups, Kitchen Basics organic stock, food colors with no artificial dyes and an extension of our skillet sauces to a line of oven baked variety.

McCormick brand liquid sauces have really taken off with 4 percentage points of category share gain in the first quarter. Consumption results have also been excellent for Stubb's which we have now owned for six months. Total Stubb's brand retail sales rose 14% in the latest quarter year on year with barbecue sauce sales up even higher at 18%.

In Europe, Middle East and Africa, EMEA, we've been building our brand equity with increased marketing support. A double-digit increase in 2015 will be followed by additional support in 2016 for our grilling campaign, Vahine dessert items and core spices and seasonings.

Our product introductions this year include seasoning blends to create authentic Spanish dishes in the UK and new recipe mix varieties in Poland, premium grinders in France Poland and Russia and dessert decorating items in France.

As a further growth driver in our EMEA region, we continue to benefit from distribution gains in Poland and Russia and have some incremental benefit in the first half of this year from our May 2015 acquisition of Drogheria & Alimentari in Italy.

We returned to double-digit sales growth in our China Consumer business this quarter in constant currency. This followed a 5% constant currency increase in the fourth quarter when we had some impact from distributors that held back on purchases in anticipation of Chinese New Year



promotion. Our holiday promotions were very successful and we achieved double-digit growth in herbs and spices, condiments and our bouillon product.

We remain bullish about our prospects for Consumer segment growth in this market and in 2016 expect to achieve constant currency sales growth in a high-single-digit to low-double-digit rate.

In other parts of our Asia-Pacific region, our decision to discontinue lower margin product in India is impacting financial results in 2016 with an estimated reduction of about 0.5 percentage point on total Company sales. Excluding this impact, we had a solid first-quarter sales performance for our Kohinoor business in India.

Adjusted operating income for our Consumer segment was up 7% in constant currency in the first quarter, setting the stage for better profit growth this year than in 2015. Factors affecting this improved profit performance include higher sales, including better growth in our US business, and lower material cost inflation.

Turning to the Industrial segment, we had excellent sales and profit growth in 2015 and this has continued through the first quarter of 2016. Gordon will provide more details, but for the total segment in constant currency we grew sales 7% and adjusted operating income 27%.

This margin improvement stems from our cost reductions, the scale advantage of higher volume and a more favorable mix, including the acquisition of Brand Aromatics in March 2015, as well as innovation of more value-added flavors.

Leading our Industrial performance again this quarter with another double-digit sales increase in constant currency was our team in EMEA. In this region the greatest growth is with quick service restaurants through product innovation, distribution gains and their geographic expansion.

This geographic expansion includes Eastern Europe and the Middle East and construction of the new plant in Dubai that we have mentioned before is on schedule to be complete in mid-2016. Our willingness to support and supply our customers locally is a good example of our strategy to excel at customer intimacy and is part of the reason we were most recently named global flavor supplier of three top food and beverage companies.

In the Americas region, it is almost one year since we acquired the Brand Aromatics business and we are pleased to report that it is exceeding our profit expectation and providing other benefits such as helping to launch organic Kitchen Basics stocks for our Consumer segment.

For the base business in this region, we are encouraged by our current innovation pipeline with customized flavors for food manufacturers, flavors for snack seasonings, beverages, soups and cereals. Sales of snack seasonings were a key driver of our top-line growth in the first quarter, especially in Latin America.

In the foodservice industry, we are supporting recent new product and promotion activity by several current restaurant customers and through our branded foodservice business expanding with some new restaurant chain.

Turning to the Asia-Pacific region, we continue to grow Industrial sales for our operation in Australia with distribution gains to quick service restaurants in the region. In China, we are a bit cautious due to the effect of the macroeconomic situation, as well as the impact of certain headwinds faced by quick service restaurants in recent years. On the positive side, these customers are continuing to invest in this market with innovation, new locations and marketing.

Let me summarize by restating that our first-quarter financial results across both our Consumer and Industrial segments were a strong start to 2016 and we have increased confidence in our fiscal year outlook.

Consumer demand for flavor is growing globally. At McCormick, we are well positioned to meet this demand with effective growth strategies, an on trend product portfolio, experienced business leaders and engaged employees. It is now my pleasure to turn it over to Gordon.



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

Thanks, Lawrence, and good morning, everyone. I'm going to discuss our first-quarter results followed by comments on our current 2016 financial outlook. We started the year with strong sales growth and higher adjusted earnings per share. Our adjusted earnings per share result was ahead of our first-quarter guidance due to a timing shift for brand marketing and discrete tax benefits.

Let's turn to our top-line results as seen on slide 16. On a constant currency basis, we grew sales 7%. The incremental impact of the acquisitions completed in 2015 was 3%. We drove the other 4% with higher volume and product mix and, to a lesser extent, from pricing actions that we took in response to higher material cost.

Constant currency sales growth for each of our two segments was in a 6% to 7% range and driven by contributions from these same three factors: volume and product mix, acquisitions and pricing.

On slide 17, Consumer segment sales in the Americas rose 4% in constant currency with about a third of the increase from Stubb's. Base business sales growth in this region was led by higher US sales of core spices and herbs, Lawry's brand, Hispanic items and Simply Asia products.

These increases were offset in part this period by lower sales of certain economy products in the US. Also, volume and mix declined in Canada as consumers adjust to some significant price increases related in part to currency pressure.

In EMEA, we continued to achieve strong sales performance, up 14% in constant currency. This increase was driven by D&A which added 10% to sales growth, as well as expanded distribution in Poland and our performance in France with new products and brand marketing.

Consumer sales in the Asia-Pacific region rose 5% in constant currency. We grew constant currency sales in China 12% with a broad-based increase across a number of product categories and when both our McCormick brand and brands added with the acquisition of Wuhan Asia-Pacific Condiments in 2013.

Sales this period were unfavorably impacted by our decision to discontinue certain low-margin Kohinoor products in India, as Lawrence described. The reduced sales from our business in India lowered our growth rate in this region by 4 percentage points this quarter.

For the Consumer segment in total, our first-quarter adjusted operating income rose 3% to \$94 million. In constant currency, adjusted operating income rose 7% from the year ago period with the impact of sales growth and cost savings more than offsetting higher material costs and employee benefit expense this period.

Turning to our Industrial segment, we had excellent results this quarter in both sales and profit even with the impact of unfavorable currency rates. And adjusted operating income margin rose to 9.2% from 7.8% in the first quarter of 2015. The result of our CCI program scaled from higher sales and a shift to more value-added products including the addition of Brand Aromatics.

On slide 22, sales of Brand Aromatics contributed 3% to our growth in the Americas. Higher base business volume and product mix this quarter versus the year ago period was led by sales of snack seasonings with particularly strong growth in the Latin American market from our operation based in Mexico.

The excellent performance of our Industrial business in EMEA continued into the first quarter with constant currency sales up 11%. As Lawrence described, we are benefiting from our strong customer relationships with leading quick service restaurants and food manufacturers supporting their growth and geographic expansion in this region.

We grew Industrial segment sales in the Asia-Pacific region 3% in constant currency. We drove higher sales to quick service restaurants in the region from our operations in both China and Australia. Adjusted operating income for the Industrial segment ended the quarter up 19% at \$36 million.

In constant currency, the growth was even greater at 27% with the factors I already mentioned and as spelled out on slide 25. Our expectation for the fiscal year is to increase adjusted operating income for the Industrial segment in line with our guidance for the total Company. Clearly the



first-quarter results came in ahead of this outlook and we expect further quarter-to-quarter fluctuation as a result of customer demand patterns and other factors.

Across both segments adjusted operating income, which excludes special charges, rose 7% in the first quarter from the year ago period. If we also exclude the impact of unfavorable currency, we grew adjusted operating income by 12% which is just above our 2016 guidance range.

Gross profit margin was up year-on-year as well with a 70 basis point increase. This improvement was the result of cost savings from our CCI and organization and streamlining actions, favorable mix, scale benefits from higher sales and pricing actions taken to offset moderate cost inflation.

As a percentage of net sales, selling, general and administrative expense was comparable to the first quarter of 2015. During this period, we had a favorable impact from several factors that included our cost savings activity. This was offset by the impact of unfavorable factors that included increases in certain employee benefits expense and a \$1 million increase in brand marketing.

Below the operating income line the tax rate on a GAAP basis this quarter was 26.9% compared to 24.8% in the year ago period. This first quarter 2016 tax rate was below our guidance for the year of approximately 28% due to discrete tax benefits. We continue to expect the full year rate to approximate 28%.

Note that excluding the impact of special charges, the tax rate for the first quarter 2016 and first-quarter 2015 were more comparable. As the result of unfavorable currency, income from unconsolidated operations declined 15% to \$8 million. This currency impact masked a strong underlying performance led by our joint venture in Mexico which had a mid-single-digit increase in both sales and net income excluding the impact of currency.

At the bottom line, first-quarter 2016 adjusted earnings per share was \$0.74, up \$0.04 from the year ago period mainly due to higher adjusted operating income. This result included the unfavorable impact from currency on both consolidated and unconsolidated income.

On slide 30, we've summarized highlights for cash flow and the quarter end balance sheet. Through the first quarter, cash flow from operations was \$78 million compared to \$96 million in the year ago period. An increase in net income was offset mainly by the timing of payments for raw material purchases.

We returned to \$102 million of cash to shareholders through dividends and share repurchases and used \$22 million for capital expenditures this period. At the end of the first quarter, \$522 million remained on the current \$600 million share repurchase authorization.

Our balance sheet remains sound. We are generating strong cash flow and we are well-positioned to fund future investments to drive growth.

Let's move now to our current financial outlook for 2016. Our strong outlook for the year is unchanged except for the impact of foreign currency exchange rates. Based on prevailing rates, we now estimate an impact to the growth rate for sales, adjusted operating income and earnings per share of 3%, down from our initial estimate of 4%.

At the top line, we reaffirm our plan to grow sales 4% to 6% in constant currency, which includes a carryover benefit of 1% to 2% from acquisitions completed in 2015 and higher pricing of 1% to 2%. Including the impact of currency, the projected sales growth is 1% to 3%.

On a constant currency basis, we continue to expect to increase adjusted operating income 9% to 11% from adjusted operating income of \$614 million in 2015. Currency is expected to lower this range to 6% to 8%. We plan to drive this increase with higher sales and at least \$95 million in cost savings, savings that include our CCI program and some carryover benefit from previously announced organization and streamlining actions. With this fuel for growth we plan to increase brand marketing at least \$20 million.

Due to the lower impact from currency, our guidance range for adjusted earnings per share has increased by \$0.03 to \$3.68 to \$3.75. Excluding the estimated 3 percentage point impact of unfavorable currency rates, this range remains an increase of 9% to 11% from adjusted earnings per share of \$3.48 in 2015.



In the second quarter of 2016, we expect adjusted earnings per share to be slightly below \$0.75 of adjusted earnings per share in the year ago period. This is due to the unfavorable impact of currency rates, increased brand marketing and a higher tax rate.

Keep in mind that we had a particularly low tax rate in the second quarter of 2015 at 16% on a GAAP basis and a bit higher on a non-GAAP basis, but still below our outlook of approximately 28% for the fiscal year 2016.

As a final remark on our outlook, we are on track for another year of strong cash flow for fiscal year 2016 with higher adjusted net income and actions underway to improve our working capital. That completes my remarks so let's now turn it over for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Alexia Howard, Bernstein.

Alexia Howard - Bernstein - Analyst

Good morning, everyone. Can I do two questions? I know you comment on the Premier Foods specifically, or not very much, but just philosophically about your plans for acquisitions from here on out. You said there are other possible deals in the pipeline.

What strikes me as different here is that it's quite big, which is a break from the bolt-on acquisitions you've done in the past. It is based in the UK which, frankly, even though I'm from there, doesn't strike me as a particularly attractive market. And it's moving out of your core spices and seasonings into more regular smaller growth categories.

So, maybe if you could just comment on if not this, are these the kind of criteria that you are focused on? And then as a really short follow-up, a number of other companies have announced that they will be labeling products that are containing GMOs in addition to obviously what you are doing which is labeling the products that are not containing GMO as GMO free.

In advance of the Vermont labeling legislation kicking in in the middle of the year, how are you planning to deal with that? Thank you and I will pass it on.

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

First of all, as we look at the Premier business, we are pretty limited in what we can say. But I can tell you that what is attractive to us about this business is that it is still predominantly a flavor business with some terrific iconic flavor brands that are much loved in the UK.

I am sure that you are very familiar with these brands yourself. Gordon, Mike and I have lived in the UK ourselves and know that brands like Bisto, Oxo, Saxa, Sharwood's, these are fantastic brands that are much loved by UK consumers and are widely consumed and we see them as flavor businesses.

Our flavor portfolio on the Consumer side is not just herbs, spices and seasonings. We have sauces in many parts of the world. We are launching cooking sauces in North America. We have over the last few years. And so, we see the brands in the Premier portfolio as being very complementary to the flavor business that we have and are building globally.

With the brands that are very close in, we are looking at a whole company. So there are some brands that are not on their face core to our business, but I'd remind you we have a strong dessert business on the continent with homemade dessert products through the Vahine brand and a fairly good part of our US business is based on cooking and baking -- baking products anyway as well.



So, we feel pretty good about the fit. It is bigger than the bolt-on acquisitions that we have done so many of. And I think we've been signaling really for several months now that we were going to look at some bigger opportunities in addition to the bolt-on opportunity.

This would use a fair bit of our financial capacity, but it wouldn't take us out of the market to do the kind of strategically important bolt-ons that we might still -- that we might have done otherwise.

And as far as the UK market goes, one of the things that we are interested in as part of our acquisition program is adding scale where we already have a strong business presence. And certainly the UK is a market where we have good presence with our Schwartz brand and have for many years and have strong relationships with our customers there.

It's also the home of our EMEA business; our EMEA regional headquarters is in the UK. So we have substantial infrastructure and resources there to handle an asset like this.

Your second question was about GMO labeling and we announced that we were going to label -- our products are non-GMO. We are taking credit for what we have to a great extent. The vast majority of our products, our herbs and spice products in particular, are not genetically modified in any way and consumers are interested in transparency and that's what led to that initiative.

And we are certainly well aware of the Vermont law. We don't have any kind of particular public stance that we want to take on that other than that we are going to comply with the law. So where there are genetically modified materials in some of our products, we will either find a way to remove them or label them as is appropriate in order to put us into compliance with that law.

Alexia Howard - *Bernstein - Analyst*

Great, thank you very much. I'll pass it on.

Operator

David Driscoll, Citigroup.

David Driscoll - *Citigroup - Analyst*

Great, thank you so much and good morning, everyone. I just had two questions. I think on the last conference call you had indicated that you expected brand marketing to increase in the first quarter and I think it was flat.

So, I'm just curious about the thoughts on how marketing lays out in the year and I believe you reiterated the \$20 million increase number. So I think the pattern shifted a bit, but I'd kind of like you to comment on that. And then I just have a quick follow-up.

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

Great, well I'll start and then I may let Gordon pick up right behind me. But we did signal that we'd have a brand marketing increase in the first quarter largely related to some new product launches. And I think in our prepared remarks we indicated that we pushed that advertising into -- mostly into second quarter just related to the timing of the distribution build on the new products.

There's really nothing dramatic here. It's just around the actual retail execution predominantly on our Herb Grinders. As we work through the holiday season and Super Bowl season, the on-shelf placement of those products was a little bit slower than we anticipated at the very beginning of the year. And so, we've shifted the spend out a bit further to coincide with the retail distribution.



Not a particular problem but just the timing of it. So, we still believe that we'll deliver on that brand marketing increase that we talked about in our initial guidance for the year. Gordon, do you want to elaborate on that?

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

No, that's absolutely right. A lot of the decisions are made as we progress through the quarter and determine when the best timing of it is as it relates to the rollout. So this was purely a decision to make sure it's the spend at the appropriate time to support the business.

David Driscoll - *Citigroup - Analyst*

And then just a quick follow-up on your pricing in the United States. What are you seeing on price and volume elasticities?

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

Price increase has just really been implemented at retail. Our expectation based on the analytical work that we did is that we'll have minimal impact on volume. Price elasticity was an important consideration in developing this increase. Particularly in the US the increase is quite surgical and item specific.

It's not a broad-based flat increase. It's what I would call a very smart analytically-based set of increases. Some items -- it wasn't all an increase; some items went down as well. We took this as an opportunity to adjust our prices across the portfolio and the net was about a 1% to 2% increase.

David Driscoll - *Citigroup - Analyst*

Smart increases are my favorite kind. I appreciate it.

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

(Inaudible).

Operator

Brett Hundley, BB&T Capital Markets.

Brett Hundley - *BB&T Capital Markets - Analyst*

Good morning, gentlemen. Just wanted to stay on that topic with pricing and maybe a little bit as it relates to your cost savings program as well. But I wanted to revisit raw material inflation, Gordon, and maybe get a sense of whether you're still looking for a low-single-digit increase.

And just your comfort with being able to use pricing or additional cost savings as needed if raws were to rise on you further. I hear about the garlic market and how that's just moving higher and maybe poor weather in India. So I just wanted to revisit that with you and get an update from you.



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

Yes, our outlook on the raw material increases this year has not changed, so we are still in the low-single-digit. I really don't want to speculate too much in terms of how we would deal with certain issues. As you know, they are automatically dealt with in the Industrial side up or down based on those movements.

On the retail side, all I would say is we lean on these tools and the techniques that we've developed to look at the elasticities and the thresholds.

Back to Lawrence's earlier comment earlier, I've been with this Company a long time and I'd say that the level of sophistication around the price increase just executed was the highest I've seen. So I have confidence in our team to go back, use their analytics to make whatever decision is necessary to deal with whatever cost issues may pop up.

CCI -- we will always lean on CCI. We've talked about that as part of our strategy over time. That's where we look first in any type of an environment is to generate cost savings through our CCI. And under Mike's leadership, as you've heard, we've upped our resources there which has given us confidence to raise our target. So that will always be the first place we look.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay, and then just as a follow-up question -- this is a little bit of an oddball question, but I'm curious. The US protein industry has spent a lot of time year-to-date talking about how they're really going to focus on pushing hot dogs this grilling season.

And I'm just curious if that actually negatively impacts your US retail business at all if you see a switch as to what goes on the grill or if your business is diverse enough of course that you really don't see any impact based upon what US protein producers try and decide to push.

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

I will say that while hot dog seasoning is not -- I'm not aware that we've got a specific hot dog seasoning in our portfolio. I'll bet Montreal steak seasoning tastes grade on a hot dog. And anything that promotes more growing is going to be good for us during the grilling season. I'm sure that Stubb's BBQ sauce is fantastic on a hot dog.

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

And Zatarain's Creole mustard.

Brett Hundley - *BB&T Capital Markets - Analyst*

All right, great, guys. I appreciate it.

Operator

Ken Goldman, JPMorgan.

Tom Palmer - *JPMorgan - Analyst*

Good morning, it is Tom Palmer on for Ken. Thank you for taking my question. We started to see organic and non-GMO products on shelves in food retailers. I realize it's still a bit early, but how is the adoption progressing? Have you gained incremental placements at retailers? Can you comment on the rate of customer adoption? Thanks.

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

I will tell you that the plan for the rollout of our conversion to organic on our gourmet line and non-GMO labeling on the bulk of our herbs and spices is very much on track. We expect to have the rollout fully implemented by the end of the year and we are pretty pleased with the results so far.

We have got great acceptance by retailers. I know I don't have a specific case to cite here, but I know we have gained additional distribution, particularly as a result of the organic conversion, and we are very optimistic about it. I think you may have heard in our prepared remarks that we are seeing great lift on our gourmet line with that conversion as well.

Tom Palmer - *JPMorgan - Analyst*

Great, thanks. And just a quick follow-up. Gross margin expansion was the strongest in a couple years. Should we look for this degree of expansion to recur again this year or in subsequent quarters or was some of the increase perhaps a rebound off of an abnormally light figure in the first quarter of 2015?

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

Well, we've indicated gross margin improvement for the year in the 50 to 100 basis point range and this is squarely in the middle of that. So we've dialed that into our thinking.

Tom Palmer - *JPMorgan - Analyst*

Okay, thanks.

Operator

Max Lewis, JPMorgan.

Max Lewis - *JPMorgan - Analyst*

Congratulations on the good results. I think my question is just more to do with the Premier Foods deal. Obviously aware there's a limit to what you can say there. I think the very first thing I'd be interested just to hear is the potential impact of this transaction on your credit rating.

If we look at Premier Foods right now, in US dollar terms for a second, excluding the pension deficit, I may get about \$930 million net debt coupled with a pension deficit of GBP416 million is roughly \$600 million resulting in the total additional net debt of almost \$1.5 billion.

I think because of that, even assuming an all stock deal, this is a deal which could almost double the net debt of the Group. I think what I'd be interested to get your guidance on is firstly whether or not you feel you can preserve your investment-grade credit rating if your net debt were to increase that materially.

And secondly, whether or not it would make sense after acquiring Premier Foods, the Premier Foods legal entity to still issue its own bond and sit outside the restrict group that currently contains all the assets that are referenceable into the McCormick bond restricted group in order to preserve the investment-grade [state] of those bonds.



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

In terms of the second question, we are getting into a level of detail that is speculation and I can't really comment on right now. In terms of your first question, I will just point to our historical track record around when we have done large acquisitions and the debt capacity that we have.

We pride ourselves on our investment-grade rating and our full intention is to maintain our investment-grade rating and we believe we can achieve that through this transaction. While it is significantly large, if you go back in our history and you look at Ducros back in 2000 and you look at Lawry's as recently as 2008, on a percentage of our market cap and the size of the Company, it's really not quite different from those size transaction.

So, our intention, as we did in those two previous transactions, would be to lever up. Obviously it will take our debt to EBITDA above where it is now, but it wouldn't be at a level that would be unlike where we were with Lawry's and Ducros at the time.

And as we did in the past, we would curtail our share buyback program to pay down that debt and return to our investment-grade rating. So, that is how we would finance this acquisition and, again, it would be very much in line with previous deals.

Max Lewis - *JPMorgan - Analyst*

I think one thing that I just struggle to understand there is whether or not you would expect to maintain your investment-grade rating immediately after the deal completed.

Because obviously whilst I can understand that right now you may not be willing to give all the information out, even if you give some guidance as to when you'll be able to give this information out regarding potential impact this could have on your credit rating that would be important.

I think currently the credit market is quite concerned about a deal which, even on an all stock basis, could quite easily more than double the net debt of the Group. And if it were to take place on an all cash basis that a very significant (technical difficulty) net debt to EBITDA (inaudible).

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

Well again, I can't speak specifically to what the rating agencies will or will not do, but all I would suggest is we are currently an A rating and we'd have a ways to go before we get below investment grade. And again, the debt to EBITDA parameters would not be unlike where we were previously on other deals where we were able to maintain our investment-grade rating.

Max Lewis - *JPMorgan - Analyst*

Okay, I think second question I would throw off was more about the EPS impact of the deal and the potential of this deal to be accretive maybe in the future. Whilst I suppose given the material discrepancy in terms of your P/E ratio versus Premier Foods' P/E ratio could imply the deal could be quite accretive.

I suppose some concerns that many of your investors have right now is firstly the impact of the pension deficit. And I've got the Premier Foods' legal entity pension deficit of GBP416 million which in US dollar terms is a little bit under \$600 million.

Premier Foods' management team announced that even though in 2015 they had a partial holiday for making the [additional] deficit contribution, the total cash outflow due to servicing the pension deficit will increase \$14 million to \$16 million this year and go up to almost \$60 million -- that is 6-0 million in 2016 and 2017.

I suppose how concerned are you about the EPS impact of: one, the material payment the Group will need to make moving forward to service it's very large pension deficit? Secondly, the impact of the UK minimum wage on the large fixed cost base of the Group given the fact that there are a large number of UK employees due to see their wage (multiple speakers)?

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

Max, can I just interrupt you for just a minute here?

Max Lewis - *JPMorgan - Analyst*

And thirdly, (multiple speakers) just about the competitive landscape in the UK where we've seen a number of the large (inaudible) markets, the big four (inaudible) markets in the UK (multiple speakers).

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

Appreciate it, Max, but these are all questions that we are not going to be able to answer, if I could just interrupt. These are all matters that we are not going to be able to address. And so, I don't want to tie up -- we've got a lot of other questioners and so I don't need to be rude, but I'm just saying we're not going to be able to address any of this points.

Obviously we would expect that if this transaction were to occur would be beneficial to the Premier shareholders and the other stakeholders in the business by providing greater security than they perhaps have in is highly levered situation that they find themselves in today. And we would also expect to see value created for McCormick shareholders as well.

The degree to which it is accretive is something that we can't even speculate on. No deal has been agreed at this point. And so, the return would be -- any discussion on the return would be highly speculative.

Other than we've been good stewards of shareholder value for McCormick's shareholders and we are going to continue to keep our financial discipline. And any deal that we undertake is going to be favorable through both an accretion lens and through an EDA lens.

Max Lewis - *JPMorgan - Analyst*

I suppose at the very least can you give the market some kind of indication as to when we might start to get some kind of firm statement from management (multiple speakers) --

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

Sorry --.

Joyce Brooks - *McCormick & Company, Inc. - VP of IR*

Max --.

Max Lewis - *JPMorgan - Analyst*

-- as to the financial impact of this deal?

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

This isn't an interview, this is a Q&A session.

Joyce Brooks - *McCormick & Company, Inc. - VP of IR*

Max, we're going to need to move to the next -- we've got several people in the queue we want to move forward. Any other questions you have we can take them off-line. You can call me after the call. Thank you.

Operator

Chris Growe, Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

Hi, thank you, good morning. We'll get back on track here. I had a question for you if I could please. In relation to the US business, you showed a chart early on in the slides where the US spices and seasonings category accelerated a bit in Q1. So I was curious about that.

Sequentially even from Q4 -- but the gap between McCormick's performance and the category was a little wider. But I think you heard you say that your branded performance was in line with the category. So I wanted to understand those two comments or those really two questions there if you will. Then I had a second question, just a quick follow-up.

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

Yes, we are continuing to see sequential improvement in our US business and -- spices and seasonings business. And so you are right when you say you're seeing that acceleration. I think that the remark that you were referencing earlier refer to our A-Z spices.

Within the different sub segments of that broad category, we have portions of that that are gaining share and our branded -- McCormick branded A-Z spices are certainly one of those segments that's gaining share.

I think overall we are still -- someone can correct me if I'm wrong here -- 60 basis points down in share for the quarter, but we continue to see sequential improvement. We're really pleased with the growth in our US business I have to say overall and we believe we've got the right momentum to get to continue to grow and get to share gain.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay and just if I could, a quick follow-up question in relation to the CCI savings. Are the phasing of those cost savings this year more backend loaded? And then I believe they were more backend loaded in 2015. So is that what's really helping drive the stronger gross margin performance here early in the year?

Mike Smith - *McCormick & Company, Inc. - SVP Finance, Capital Markets & CFO North America*

Hey, Chris. This says Mike Smith. They are more evenly weighted this year. Last year they were really back loaded because as the year built we identified more savings opportunities. We also had the North American Effectiveness Initiative which really hit in the second half of last year. But you'll see a more balanced build this year.

Chris Growe - *Stifel Nicolaus - Analyst*

So, with those savings being more backend loaded last year, this should help support a stronger gross margin at least early in the year it would seem.



Mike Smith - *McCormick & Company, Inc. - SVP Finance, Capital Markets & CFO North America*

Yes, our gross margin should be consistently up in that 50 to 100 basis point range for the year.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, that's very helpful. Thank you.

Operator

Rob Dickerson, Consumer Edge Research.

Rob Dickerson - *Consumer Edge Research - Analyst*

I just have one question and two quick clarifications. The first one is for free cash flow for the year, I don't believe you've given a target and, if not, can you? That's one. And then just any commentary around the cadence of free cash flow built throughout the year given the increase in your inventory (inaudible).

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

We have not given a target. Obviously we have some aggressive programs that we spoke about earlier. Under Lawrence's leadership he has certainly elevated internally with targets that we're cascading internally.

But I would say that we are expectation wise in line with the net income growth that we are forecasting and projecting with benefits coming through various levers that we are focused on on the working capital side. So, I know that's not as specific as you would like, but we certainly have a focus on increasing our cash flow year-over-year this year.

Rob Dickerson - *Consumer Edge Research - Analyst*

Okay, fair enough. And then two quick ones. On income from unconsolidated, I think at year end you said that was down slightly and now it's about flat year-over-year. Is that just from currency or is there something else there?

And then also just I want to make sure I heard correctly. You said the operating income year-over-year growth for the Industrial segment should be in line with total Company, which is 68% including FX. I just want to make sure that's right.

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

Hey, Rob, I'll take the unconsolidated and I'll pass it to Gordon for the Industrial question. But income from unconsolidated operations is definitely an FX matter. The underlying businesses in local currencies are all doing really well.

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

As it relates to the Industrial business, we are very, very pleased with the start. But as I said in my remarks, we expect the full-year number to be in line with the total year guidance for the total Company.



And that's primarily a function of customer order patterns and mix that can vary quarter to quarter. So we are just giving people a heads up that while we're very, very pleased with the start that at times that can change based on timing of promotions and things by our customers.

Rob Dickerson - *Consumer Edge Research - Analyst*

Okay, great. Thanks, guys.

Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

I guess the first little more specific question on the fiscal second quarter, if the new product introductions were deferred to the second quarter and you are going to have some offset due to A&P spending, I guess all else equal should sales be a bit stronger in the second quarter with those launches?

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

I would say, Eric, we haven't given specific sales growth guidance, but it wouldn't be out of line with the full-year guidance, I would say.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. And then just maybe a bigger picture question on the Industrial. You've been doing better there with margins for a while now. And I guess having followed the Company for a long time; you've talked a lot about improving the mix and the technical capabilities and winning new contracts on the back of the Industrial segment.

And it seems to me the maybe the best way to judge that is the margins because the more technically advanced the products are the more likely you are to get a better margin for them. Is there a percentage margin that you are looking at for that segment that will suggest let's say that you're closer to some of your competitors like an IFF and others who seem to generate a higher margin in that business? And I'll pass it on.

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

Eric, this is Gordon. You obviously have followed us a long time so you know there was a time period where we had put out a specific margin target for that business, 8% to 10%. We didn't talk about that as much during rising commodity costs because the pass through mechanisms on that side of the business mask what was really good underlying performance at the time to the tune of almost 200 basis points.

We haven't put out a specific target, but I can say the progress that we've made in the margin story there is very, very pleasing to us. So, it just demonstrates to us that strategies we have in place with the portfolio of products that we are focusing on, the acquisition of Brand Aromatics are all the types of things that we have always worked towards in our strategy.

So, we hope to just continue that journey. And I can't tell you there's a specific endpoint at this stage.

Eric Katzman - *Deutsche Bank - Analyst*

If I can just follow up on one thing. Just remind me, Gordon, your pension here -- or I guess globally I should say -- your pension is -- is that overfunded or --? I mean I know it's always been very conservative, but -- and your accounting on it is pretty conservative. But where is your pension today relative to its funding needs?

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

On an ABO basis, which is the accumulative benefit obligation, it's pretty much fully funded. We have minimal contributions to make to that plan in the US this year. So it's very much within our guidelines and we expect minimal pension contributions this year.

Eric Katzman - *Deutsche Bank - Analyst*

Okay, thought so. Thank you.

Operator

Robert Moskow, Credit Suisse.

Rob Moskow - *Credit Suisse - Analyst*

I guess just one last question about margins on the Consumer side. Historically your margins in Consumer were around 19%. And I guess the way I would tell the story is over the last couple of years you've made a bigger investment in your consumer business to become more competitive with maybe lower price competition and now the margins in the mid-17% at least it was last year.

When you think about what's possible going forward now that you've raised your CCI targets, do you think about maybe those margins getting up towards 19% again? Or do you really not think about it on a quantitative basis, it's really just a matter of driving the top line and then as your competitive position improves just the profit grows? just wanted to know how you thought about it.

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

Well, Rob, this is Lawrence, and good morning, by the way. Part of the -- we are -- we haven't set a target for the margins on that business that we've communicated externally. But we certainly believe that there is upside to those margins for two reasons.

First, in a more benign commodity environment, our CCI efforts are better able to drop to the bottom line. Our goal on CCI is to provide fuel for growth, but a portion of CCI is always expected to support bottom-line growth. And so, that would go straight to your margin question.

The second is as our US Consumer business returns to growth that, of course, is one of the highest margin businesses and largest businesses in our portfolio and with return to growth it mixes up the whole Consumer business.

Rob Moskow - *Credit Suisse - Analyst*

Very good, okay, thank you.

Operator

I would now like to turn the floor back to Lawrence Kurzius for closing remarks.



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

Well, thanks, everyone, for your questions and for participating on today's call. We are excited about our growth strategies and plans underway in 2016 to build on our base business, accelerate innovation, expand availability and footprint of our business and excel in customer intimacy and consumer insights.

Our acquisition pipeline is robust and we have aggressive cost savings programs underway all driven by McCormick's experienced leaders and engaged employees. Thank you for your attention this morning.

Joyce Brooks - *McCormick & Company, Inc. - VP of IR*

Thanks, Lawrence and thanks to everyone for joining us today. If you have any questions regarding today's information, please give us a call at 410-771-7244. That concludes this morning's conference.

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