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

To accompany this call, we’ve posted a set of slides at ir.McCormick.com. We’ll begin with remarks from Lawrence Kurzius, President and CEO; and Mike Smith, Executive Vice President and CFO, and then open the line for questions.

During our remarks, we will refer to non-GAAP financial measures. These include adjusted operating income and adjusted earnings per share that 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 statements 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’s now my pleasure to turn the discussion over to Lawrence.

Thank you, Joyce. Good morning, everyone. Thanks for joining us. McCormick’s third quarter results continued the strong performance we delivered in the first half of 2016 with adjusted earnings per share of $1.03. In constant currency, we grew sales 6% with increases in both segments and each of our three regions, and grew adjusted operating income 15%.

These results demonstrate the effective execution of our strategy, designed to drive both top line sales and significant productivity improvements. This balanced approach is being managed by McCormick leaders and employees around the world, and I thank them for their effort and engagement.
With our year-to-date financial results and momentum heading into the fourth quarter, we're well-positioned to deliver record results in 2016. Taking a look at the third quarter, we were pleased with the performance of both our consumer and industrial segments.

On a constant currency basis, we grew consumer segment sales 7%, and increased adjusted operating income 12%. As those who follow McCormick know, we're driving sales with increases in our base business, new products, and acquisitions. All three of these drivers contributed to consumer segment sales increase this quarter.

Our base business growth was particularly strong in the Americas region, and led by sales of core McCormick and Lawry's brands spices and seasonings. Also our sales of recipe mixes including wet recipe mixes have picked up in the US, and we gained category share this quarter. China was another major driver of the consumer segment sales increase this quarter, with double-digit growth in constant currency and category share gains for both herbs and spices and recipe mixes.

As for innovation, we shared with you at our June earnings call, the great line up of new products we are launching in the second half of our fiscal year. These include the rollout of herb grinders in additional markets, organic recipe mixes, and Kitchen Basics Bone Broth in the US, which is a simple way to add flavor, and 10 grams of protein per serving. Internationally, among the new products we're introducing, our new World Cuisine recipe mixes across Europe and innovative dessert items in France and Australia.

On the acquisition front, we had an incremental benefit this quarter from both Stubb's and Gourmet Garden. While it is less than six months since we acquired Gourmet Garden, I'm pleased to report that we're already gaining new distribution for these products in the US, and their first retail placement in Canada.

While constant currency sales rose 7% for the consumer segment, the increase was even higher for adjusted operating income at 12% in constant currency. Led by our Comprehensive Continuous Improvement program, CCI, we're making great progress in lowering costs throughout our business, and improving margins for both our consumer and industrial segments. We're well on our way towards reaching our goal of $100 million to $110 million cost reductions for 2016.

We also had more positive mix this period. This included sales in North America, with the strength of our branded business outpacing our sales of economy products, and in the Asia-Pacific region where we benefited from our year-ago actions to improve our product mix and margins.

Turning to our industrial segment on slide 6, we grew sales 4% and increased adjusted operating income 23% in constant currency. We had solid sales results in each of our three regions, and Mike will go through some of the specific drivers.

Our growth strategy to excel in customer intimacy and consumer insights is really paying off for the industrial segment. This is evident in our third quarter growth and share gains of our branded food service sales in the US and other markets, and we're meeting growing consumer demand for organic flavors, non-GMO products, and a whole range of on trend flavors. In this regard, the addition of Brand Aromatics in 2015 has been a real success, expanding our capability and leading to new business. Increasingly, our industrial customers are also seeking innovative solutions for healthier food, including snacking which is also driving higher sales.

The third quarter profit growth for our industrial segment was particularly high this quarter, with adjusted operating income [up] 23% in constant currency, and we increased adjusted operating income margin more than 100 basis points. CCI was a significant driver of this increase, and businesses mix was also a key contributor.

Our customers are seeking unique flavors that tend to be more complex, value-added and higher margin. We're unlocking some new opportunities, most recently with flavors for savory side dishes and dessert baking mixes with our FlavorCell technology, encapsulated flavors that offer protection and controlled release in a wide variety of processing environments.

These segment results with the excellent growth in adjusted operating income helped us achieve adjusted earnings per share of $1.03, an $0.18 increase from $0.85 in the third quarter of 2015. The higher operating income added $0.11 of the increase, and the other main factor was a lower tax rate as Mike will describe more fully.
With one quarter remaining in the fiscal year, we’ve increased our guidance for adjusted earnings per share to $3.75 to $3.79, from our previous guidance at the upper end of $3.68 to $3.75. This new range is based on our strong third quarter results, partially offset by several headwinds for earnings per share as we move into the fourth quarter.

The first headwind is a greater impact from unfavorable currency, particularly for our joint venture in Mexico. Second, a reduction in our initial 2016 plans for share repurchases due to acquisition activity throughout the year for both completed and uncompleted deals. As many of you know, it’s our practice to curtail share repurchases in conjunction with -- to acquisition activity to achieve our target debt leverage. And third, the rising cost for certain raw materials, particularly vanilla and garlic.

When we provide our material cost inflation outlook for 2017 in our January earnings call, it is likely to be above 2016’s low single-digit rate. As we’ve done in the past, we expect to manage this increase through pricing actions and cost savings.

While we’ve already begun to take pricing actions, we anticipate some near-term slowdown in our rate of margin improvement. Part of his remarks, Mike will be providing more comments on our outlook.

Next let’s take a closer look at our growth in our US consumer business, beginning on slide 8. As I indicated, our third quarter sales growth for McCormick and Lawry’s brands spices and seasonings in the US was particularly strong. Leading this increase were core McCormick brand spices and herbs.

Our conversion to non-GMO labeling has gone extremely well, and we activated marketing for new herb grinders. We at McCormick are proud to share that our herb grinders were recently awarded Innovation of the Year by GMA, the Grocery Manufacturers Association.

We’re continuing to increase our digital marketing to drive sales. Our plans are to take digital marketing to nearly two-thirds of our total US advertising this year, up from 46% in 2015. Traffic to our McCormick.com site is up 15% versus last year, as millennials and other generations seek recipes, how to videos and other content.

Just last week, we learned that L2 Research ranked our McCormick brand in the US number 5 out of 126 food brands in its annual Digital IQ ranking. For a third year in a row, we’ve achieved the number five spot, which places us at L2’s, quote, genius level, unquote. The L2 ranking is based on the following criteria, brand site effectiveness and e-tailer investment, digital marketing, social media based on reach, search and engagement, and mobile encompassing experience, search, advertising and apps.

In 2016, we’re getting more value out of each marketing dollar. In the US, we’re on track to reduce our non-working media by 20% in 2016 versus 2015, and increase our working media by 12%. Across all markets, we’re shifting our marketing towards more high ROI digital marketing.

As a result of these actions and including the currency impact, we’ve lowered our planned increase in brand marketing for 2016 from an increase of $20 million to an increase of $15 million. This is a 6% increase from our brand marketing spend in 2015, and well ahead of our projected 3% year-on-year sales increase on a reported basis.

Also behind the strong sales performance this quarter was our great grilling season. We grew Grill Mates sales 6% with incremental marketing support and the introduction of new single-use marinades, an innovation that is exceeding our expectations at market. Sales of our Lawry’s brand seasoned salt and other products were up with some strong brand marketing activity, and as we worked through resets of our gourmet line to the new organic versions, sales this period rose at a double-digit rate.

For those of you who watch the retail consumption data, our reported sales growth might seem at odds with the latest data which has shown a sequential increase in category share decline for McCormick versus the last quarter. A large part of the share decline this quarter related to the significant retail shelf disruption from the conversion of our gourmet product line. We remarked on this as part of our outlook at our June earnings call.
As the old gourmet products rotate off the shelf and are replaced by new organic varieties, there have been a number of out-of-stock situations and shelf label changes. As customers work to replenish their shelves, our shipments of gourmet items were strong toward the end of the third quarter, and we expect this to read through in stronger retail consumption data for the fourth quarter.

For those customers who have completed the resets to organic gourmet, we’re seeing significant sales lift, and we expect most of our customers to have these conversions complete before the holiday period begins later this fall. In addition, with this move to organic, we’ve been able to increase our distribution of gourmet items with 4 of our top 10 retailers.

Looking ahead to the fourth quarter, we are excited about this year’s holiday period in the US. We’re reminding consumers to flavor these important meals with the pure flavors of the holiday. During this high consumption period, we’re driving brand loyalty through television, digital and in-store communications, and featuring some of our latest core product innovations such as roasted ground cinnamon and gingerbread spice.

As part of our fourth quarter communication plan, we're reactivating our highly successful purity campaign. This campaign has been particularly effective with millennial consumers.

We measured a 2 percentage point increase in millennial household penetration for McCormick spices and seasonings, when we introduced our purity message. In addition, the purity TV and digital messaging lifted millennia’s purchase intent for McCormick brand by 15 percentage points. This is driving a strong retail sales response, with a 9% increase in our spices and seasonings during a seven week on-air period.

Across all of our markets and both of our segments, our leaders and employees throughout McCormick are driving toward a solid finish and great fiscal year results. McCormick is uniquely positioned as a global leader in flavor, a category that is on trend with today’s consumer and healthy eating. We’re driving strong momentum with our strategies to grow sales, balanced with our CCI program and other efforts to build fuel for growth and higher margins.

I’d like to thank you for your attention, and it’s now my pleasure to turn it over to Mike. Mike?

Mike Smith - McCormick & Company Inc - EVP and CFO

Thanks, Lawrence, and good morning, everyone. As Lawrence indicated, our third quarter results continued the strong performance we achieved in the first half. I’ll provide some added perspective on the financial results, and then discuss the details of our latest 2016 financial outlook.

On a constant currency basis we grew sales 6%. Acquisitions, higher [volume] and product mix, and pricing taken in response to higher material costs each contributed to the increase as seen on slide 12. Both our consumer and industrial segments delivered solid top line growth, with increases in each of our three regions.

On slide 13, consumer segment sales in the Americas rose 8% in constant currency, with 3 percentage points of the increase from acquisitions, both Stubb’s and Gourmet Garden. The balance of sales growth this period was in the US, and led by McCormick and Lawry’s brand spices and seasonings, Zatarain’s brand items and Kitchen Basics products. These sales increases were offset in part by a slight decline in our sales of private label and economy brands.

EMEA consumer segment sales rose 1% in constant currency. We’ve continued to drive sales growth in Poland and Russia that includes the benefit of new distribution. And we delivered another strong sales quarter along with category share gains in France, with new products and brand marketing. These gains were offset in part by weakness in the UK, where a number of food companies have been challenged by a difficult retail environment.

We grew consumer sales in the Asia-Pacific region 11% in constant currency. Sales from Gourmet Garden added 7 percentage points of this growth.
In China, we returned to a strong sales increase this quarter, following some moderation in the second quarter that related to a successful SAP implementation in our Wuhan facility. Third quarter sales in China were mainly driven by promotional activity and pricing. Year-to-date, our consumer sales in China were up 9% on a constant currency basis.

A decline in India lowered our third quarter sales in this region by 6 percentage points, due to a decision a year ago to discontinue certain low margin products. For the consumer segment in total, we grew adjusted operating income 11% to $127 million.

In constant currency, adjusted operating income rose 12% from the year-ago period. The impact of sales growth and the cost savings more than offset higher material costs and our investments in growth, including higher brand marketing.

Turning to our industrial segment and slide 17, we had excellent results this quarter in both sales and profit. We grew industrial sales in the Americas 4% in constant currency. This strong performance was driven by sales of branded food service products in the US, where we've gained share with a leading customer. Also in the US, we've been winning business with several new restaurant customers, although demand from some of the quick service restaurants remains weak.

And in Latin America, we're growing sales of snack seasonings and other products supplied from our operation in Mexico. In Canada, we took pricing to pass through higher material costs that include the impact of currency. But this was offset by weaker volume for industrial products in that market.

We grew industrial sales in EMEA 5% in constant currency versus the third quarter of 2015. We had solid sales growth of branded food service products and customized flavor solutions.

Industrial segment sales in the Asia-Pacific region were up 3% in constant currency. We had strong growth from our operations in Australia and Southeast Asia, driven in part by new product wins and promotional activity by our quick service restaurant customers.

In China, as we indicated last quarter, a large customer is diversifying their supply chain by adding a second supplier for some core items that McCormick supplies. Adjusted operating income for the industrial segment ended the quarter up 14% at $45 million. In constant currency, the growth was 23% driven by higher sales, our cost savings, and a more favorable business mix, offset in part by higher material costs and increases in brand marketing.

Those of you who follow us closely know that the industrial segment tends to have some quarter to quarter profit volatility, largely due to customer activity including new product launches, limited time offers and other promotions. Following an exceptionally strong third quarter, we are projecting adjusted operating income growth for this segment to slow in the fourth quarter. For the fiscal year, we expect both an increase in adjusted operating income and improved margins versus 2015.

Across both segments, adjusted operating income which excludes special charges rose 12% in the third quarter from the year-ago period, and excluding the impact of unfavorable currency, we grew adjusted operating income by 15%. Year-to-date, the increase in adjusted operating income in constant currency is 11%.

We increased gross profit margin 180 basis points year-on-year to 41.6% in the third quarter. This improvement was a result of cost savings from our CCI and streamlining actions, favorable mix, and pricing actions taken to offset higher costs. Given the rise in certain materials as Lawrence described, we still expect to increase gross margin in the fourth quarter, but the increase is likely to be below 100 basis points.

Our selling, general and administrative expense as a percentage of net sales was up year-on-year by 20 basis points from the third quarter of 2015, mainly due to the increase in brand marketing. The tax rate on a GAAP basis this quarter was 22.3%, below both the prior year rate and our previous guidance for the second half, mainly due to discrete tax items. At this time, we expect a tax rate of 28% to 29% in the fourth quarter, and a FY16 tax rate of 25% to 26%. 
Income from unconsolidated operations was down this quarter by $2 million. As a reminder, income from unconsolidated operations in the third quarter of 2015 had a $2 million favorable impact from special charges due to the minority interest in our Kohinoor joint venture India.

Currency also had an unfavorable impact on the year-ago comparison. However, we had good underlying performance. Our largest joint venture, McCormick de Mexico, has grown year-to-date sales at a high single-digit rate in local currency. We anticipate a greater impact from unfavorable currency, and have increased our expected decline in income from unconsolidated operations to about 15% from approximately 10%.

At the bottom line, third quarter 2016 adjusted earnings per share was $1.03. This was an $0.18 increase from the year-ago period, as a result of higher adjusted operating income, a favorable tax rate and lower shares outstanding. As a reminder, this year-to-year comparison includes the unfavorable impact from currency on both consolidated and unconsolidated income.

On slide 26, we summarize highlights for cash flow and the quarter end balance sheet. Through the first three quarters of 2016, cash flow from operations was $322 million, up slightly from the year-ago period.

The impact of higher net income was offset in part by a pension contribution, timing of tax payments, and an increase in trade receivables this period. For the third quarter, our cash conversion cycle was down from the year-ago period, and we are putting programs in place such as extended payment terms with our suppliers to achieve further reductions.

We still expect capital expenditures of $150 million to $160 million. Much of this is in support of our growth, with major construction in both Shanghai and Dubai. In August, we approved future capital investments in Southeast Asia to support our growth with a new manufacturing facility in Thailand, and a new and advanced technical innovation center in Singapore.

We're also returning a portion of cash to our shareholders, and through the first three quarters used $343 million for dividends and share repurchases. At the end of the third quarter, $391 million remained on the current $600 million share repurchase authorization.

Note that we now expect to reduce shares outstanding by 1% from FY15. This is below our initial projection of 2%. It is due to the curtailment of our repurchases related to acquisition activity in 2016.

In summary, 2016 is expected to be another year of strong cash flow, providing the funds for continued investment in acquisitions and other growth strategies. Our debt leverage is low, and we are well-positioned to finance these investments.

Let’s move now to our financial guidance. We continue to expect strong growth for FY16, and have updated several projections based on our third quarter results, and latest outlook for the fourth quarter. At the top line, we expect to grow sales approximately 3% on a reported basis, and approximately 6% in constant currency. This is at the upper end of our previous range, and implies a fourth quarter increase of approximately 6% on a constant currency basis.

We expect to grow adjusted operating income approximately 7% from $614 million in 2015. In constant currency, our estimated rate of growth is 10%, which is at the midpoint of the previous range. Our guidance for cost savings remains $100 million to $110 million, and our current estimate for increased brand marketing is around $15 million, reflecting the spending efficiencies that Lawrence noted.

As also discussed, we’re increasing our guidance range for adjusted earnings per share to $3.75 to $3.79. Our previous guidance for adjusted EPS was the upper end of $3.68 to $3.75. This increase reflects the favorable third quarter results, partially offset by the effect of currency on our income from unconsolidated operations, a lower reduction in shares outstanding, and the rise in vanilla and garlic.

Excluding the estimated 4 percentage point impact of unfavorable currency rates, this range is an increase of 12% to 13% from adjusted earnings per share of $3.48 in 2015. Based on this FY16 range, we’re projecting adjusted EPS for the fourth quarter of $1.24 to $1.28. This is an increase of 5% to 8% from adjusted EPS of $1.18 in the fourth quarter of 2015.
To summarize, our projected FY16 constant currency growth rates for sales, adjusted operating income, and adjusted earnings per share are at or above our long-term objectives for the business. We look forward to reporting our final results to you in January.

That completes my remarks. I'll now turn it back over to Lawrence.

Lawrence Kurzius - McCormick & Company Inc - President and CEO

Thanks, Mike. As we move to your questions, let me leave you with our key take-aways for the quarter. First, we had great results. In constant currency, we grew sales 6%, with growth in both segments and each region, and adjusted operating income was up 15%. We’re executing on an effective strategy to drive sales and lower costs.

Our CCI program is driving higher margin and profit, and generating fuel for growth. And based on our year-to-date results and business momentum, we expect 2016 to be a record year for McCormick.

So operator, let’s take the first question.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question today comes from the line of David Driscoll with Citigroup. Please proceed with your questions.

David Driscoll - Citi Research - Analyst

Good morning, and thank you.

Lawrence Kurzius - McCormick & Company Inc - President and CEO

Good morning, David.

Mike Smith - McCormick & Company Inc - EVP and CFO

Good morning.

David Driscoll - Citi Research - Analyst

I had two questions I was hoping to ask. The first question is, I’d just like to hear your all’s thoughts on US food trends, and just kind of what you’re seeing from the consumer? Specifically, it’s been pretty strong growth within the spice category, but yet the overall grocery stores have been deflationary. I’d just like to hear your thoughts about kind of the differential between these two, and does it have any implications to your category going forward? And then, a follow-up if I may?
Lawrence Kurzius - McCormick & Company Inc - President and CEO

Well, thanks, David. I think that the food generally still continues to be relatively flat, and the spice category, herbs and spices is one of the strongest categories in the store. If you looked at a heat map for the entire store, you would see that the herb and spice category is about the hottest spot in the store.

David Driscoll - Citi Research - Analyst

Yes, I totally understand that. Do you think that there's anything to be worried about, in terms of the deflation that we see more broadly in the store versus this exceptional growth? Or in fact, does lower prices in the meat category have maybe a positive linkage to what's going on in spices? That's really what I'm trying to drive at.

Lawrence Kurzius - McCormick & Company Inc - President and CEO

Yes, we just see the spice category being driven by a number of long-term trends, David. There's an increased interest in cooking from scratch as millennials come to be a larger part of the shopping universe. We've talked about this a couple of times. And we just think that's a real advantage for our core category.

I'm not so sure that I can speak to a change in the trend for the whole center of the store. There does seem to be a shift away from more prepared foods, and a move towards -- closer to fresh, more scratch type foods. I think that bodes well for the perimeter of the store, and for companies that are -- that have businesses that involve scratch cooking. And, again, I think that's a positive for our category.

There's also a trend towards greater interest in health and wellness and healthier eating. And, again, I think that's supportive of the herb and spice category, particularly in the US where herbs and spices are in the dietary guidelines for Americans, really for the first time ever as a strategy for reducing things like added salt, added sugar in foods.

David Driscoll - Citi Research - Analyst

Just one fast follow-up. On the -- ?

Lawrence Kurzius - McCormick & Company Inc - President and CEO

By the way, we see this also on the industrial side of our business, I almost left that out. Many of our industrial customers are working with us to change the formulations of their products, to make them more natural, to take out things that sound artificial, to make them sound fresher and less processed.

David Driscoll - Citi Research - Analyst

A quick follow-up on inflation and pricing. I believe that you said, but I just want to confirm, that you've had a tremendous period here where you've actually had price increases on the portfolio. Yet I believe it's been net deflation where you've had low single-digit raw material inflation, but this incredible CCI program, so on balance net deflation.

But it sounds like in your script, you're telling us that going forward, it's not going to be as good. The inflation is really going to start to pick up for -- as I think you called out a couple of particular items. But it just sounded like there was a real material change here in the trajectory of inflation. Is that correct, and is that the message?
Lawrence Kurzius - McCormick & Company Inc - President and CEO

Well, there's been a lot of volatility in raw materials over the last couple of years. We've had to deal with a long and sustained increase in the cost of one of our iconic raw materials in particular, that being pepper. We did this year experience low single-digit inflation, so I wouldn't say that there was deflation in our costs. CCI doesn't just go to the cost of the raw material inputs, but looks at every line of the P&L. So a portion of that CCI was in our fixed cost structure and SG&A and so on.

We do see a higher rate of inflation for next year, but we're really not ready to give guidance on 2017 just yet. We are seeing cost increases that are quite well-publicized in a couple of key raw materials, vanilla and garlic. But we also anticipate that we're going to be able to take pricing actions that will -- between pricing action and CCI, we'll be able to mitigate those costs.

What we're really talking about in the fourth quarter, is that some of the pricing actions that we took were against raw material cost increases that had occurred in the market, but where we may have had some strategic positions. And so, as the cost of those materials as they flow through, begin to catch up with the price increases, the margin improvement that we've been experiencing will begin to narrow. Mike, you want to comment on -- ?

Mike Smith - McCormick & Company Inc - EVP and CFO

We've seen this trend coming, and we've taken pricing actions for things like vanilla this year in the US a couple times. In China, we're taking a garlic action right now. So we've been ahead of the curve here, and we're monitoring it very closely. But through pricing and CCI, upping the level there, we feel comfortable we'll cover the costs going into next year. But we'll provide more guidance in our January earnings call.

David Driscoll - Citi Research - Analyst

Thank you so much.

Operator

Our next question is from the line of Ken Goldman with JPMorgan. Please go ahead with your question.

Ken Goldman - JPMorgan - Analyst

Hi, good morning, and thanks for the question.

Mike Smith - McCormick & Company Inc - EVP and CFO

Good morning, Ken.

Ken Goldman - JPMorgan - Analyst

Just one follow-up, as you guys think about the gross margin growth into 4Q. I think you talked about it decelerating. You mentioned garlic and vanilla. Are there any other headwinds we should be thinking about as we model the fourth quarter’s gross margin, or is it really that you are focused on, and you want us to focus on, as we think about our models?
Lawrence Kurzius - McCormick & Company Inc - President and CEO

Well, in terms of gross margin, those are the -- really the, I'd say those are the right things to be focused on. I want to be clear that we're talking about a lower rate of margin improvement. So we're not talking about a margin decline.

The other thing though, as that reads through to EPS, that's actually the minority of the -- of kind of the -- what I'll call the gap between our beat in third quarter, and the amount that we're raising our guidance by.

The larger impact items is that we are expecting more FX impact, particularly on our JV income that's below the operating profit line, it comes through on the unconsolidated line. Now a big part of that JV income is from a joint venture in Mexico. We've seen a substantial softening in the peso, and just so -- while they're having great results, the translation of those great results back into US dollars is less than we had anticipated when we had our second quarter -- when we had our last call.

The other major factor is just a lower rate of share repurchase. As you know, we curtail our share repurchases when we have an acquisition. Between the actually completed acquisition activity, and for activity around deals that we did not complete, there was a curtailment of share repurchase. And we end up -- it looks like our share repurchases are going to be more closer to 1% than 2%, and that's a substantial factor also. Mike, do you want to -- ?

Mike Smith - McCormick & Company Inc - EVP and CFO

Yes, I think the other factor -- and we talked about the material costs rising during the year. And the industrial business had a great third quarter, a real good mix. We had the strong branded food service business which is high margin for us.

And yes, the timing of some of those promotions and some of our customers were basically the same, the fourth quarter. For the full year, we're very happy with the performance, but I wouldn't expect them to grow at the 23% adjusted operating income again in that fourth quarter.

Ken Goldman - JPMorgan - Analyst

Okay. That's helpful. One quick follow-up from me if I can. There was some comment, and I may have misheard it. I'm really asking for a clarification about the relationship with raw material savings and CCI. Could you repeat that, and let us know what you meant by that? Because I was hearing it, but I wasn't quite sure exactly what you were saying about, whether raw material savings were included in how you calculate CCI and so forth? That would be helpful.

Mike Smith - McCormick & Company Inc - EVP and CFO

Oh, definitely. When we renegotiate with vendors or have raw material savings, they are included in CCI.

Ken Goldman - JPMorgan - Analyst

So you don't mean when garlic prices go up or down, you're talking about more active -- ?

Mike Smith - McCormick & Company Inc - EVP and CFO

More active reformulations, yes, with the vendor consolidation, things like that.
Ken Goldman - JPMorgan - Analyst
Got it.

Mike Smith - McCormick & Company Inc - EVP and CFO
Market moves would not count.

Ken Goldman - JPMorgan - Analyst
Perfect. Thank you so much.

Operator
Thank you. Our next question is coming from the line of Rob Moskow with Credit Suisse. Please proceed with your question.

Rob Moskow - Credit Suisse - Analyst
Hi. Thank you. Lawrence, I think you said that your advertising efficiencies are helping you save about $5 million versus your prior expectations. And it sounds like you’re just dropping it to the bottom line, but you’re also keeping your operating income guidance for the year unchanged as far as I can tell. So is the $5 million in savings kind of offsetting some of this narrower gross margin trend that you’re talking about in fourth quarter owing to costs? And I think you also said timing of purchases of customers.

Lawrence Kurzius - McCormick & Company Inc - President and CEO
No. The change in the guidance on advertising really relates to being more efficient with digital and more efficient with our -- the non-working portion of advertising. We’re running all of the programs that we intended to. We, frankly -- to spend the $5 million, we’d have to waste it. A portion of that change in outlook actually is already captured in Q3. And so, this is a change in guidance for the full year, and not really specific to the fourth quarter.

Rob Moskow - Credit Suisse - Analyst
Okay. Well, I think maybe my question then is that -- the $5 million benefited third quarter. You could have taken it to the year, and raised your op income guidance for the year. But instead fourth quarter is going to be a little bit lower than at least what I thought -- what I had modeled. So is this a comment about a more challenging gross margin environment in fourth quarter than you thought, or maybe there’s potential for upside in 4Q?

Lawrence Kurzius - McCormick & Company Inc - President and CEO
No. Again, I would point the fourth quarter. I know you’re talking about operating income specifically. I’m thinking about the whole P&L, all the way down. But the three headwinds that we talked about, the FX impact, the lower share repurchases, summarized in raw material cost are really the factors that we want to overcome.

Also I’ve got to say that we are a bit conservative when we look at guidance as we get to the fourth quarter, because it’s our largest quarter. October and November are our highest shipping months. One big order from one customer, or one odd shipping day in the last week of the year can swing the number a bit. And so, we tend to be careful in the guidance that we give, that can be interpreted as specific to fourth quarter.
Okay.

Mike Smith - McCormick & Company Inc - EVP and CFO

Yes, and to put it in perspective too, in our first half of the year, our adjusted operating income was up between 5% and 6%. We had a really good third quarter at 12%, and for a variety of reasons. And fourth quarter is about a third of our earnings per share, so it's a big quarter for us. So there's a lot of moving parts as Lawrence said.

Rob Moskow - Credit Suisse - Analyst

Okay. Just one more question. You have rising costs, garlic and vanilla. I was a little unclear. Are you considering taking -- you're going to take more pricing. It sounded like you were proactive, and already taking some pricing.

When will US customers be notified of the pricing, and how do you think the category will respond? You had issues with private label, or just really more like, lower cost brands a couple years ago. Do you expect everyone else to follow?

Lawrence Kurzius - McCormick & Company Inc - President and CEO

Yes, I don't want to get too specific about the exact timing of pricing actions. But I know that we will be taking pricing action. We've moved on vanilla twice already this year, and expect that will be one of the areas where we go up.

Vanilla in particular, is in a situation where there's a worldwide shortage. We don't believe that any competitor is advantaged versus McCormick in their raw -- in that particular commodity. Indeed, we believe that we're actually in an advantaged supply position, compared to some of our competitors. We've been approached by customers of competitors who are experiencing defaults, and are having difficulty getting vanilla at any price. The raw material, and the shortage of that raw material is going to dictate a higher price across the whole market, and we're confident that we won't be moving alone.

Rob Moskow - Credit Suisse - Analyst

Great.

Lawrence Kurzius - McCormick & Company Inc - President and CEO

The other thing too, these category management tools we've invested in over the past couple years, we've shown when we took the pricing action earlier this year in the US, our volume, rate of share gain and volume was positive. So we grew volume while taking a price increase. So we're doing our pricings much smarter than we used to. So we feel when we need to take pricing again, we'll do that with a minimal impact to volume.

Rob Moskow - Credit Suisse - Analyst

Great. Thank you so much.
Operator
Our next question is from the line of Mario Contreras with Deutsche Bank. Please proceed with your question.

Mario Contreras - Deutsche Bank - Analyst
Hi, good morning.

Lawrence Kurzius - McCormick & Company Inc - President and CEO
Good morning, Mario.

Mario Contreras - Deutsche Bank - Analyst
So I wanted to follow-up on the US business. You mentioned that at least in terms of the scanner data, we're seeing market share down. You attribute most of that to the shift to the gourmet organic product line. If we set that aside, can you comment on how some of your other key product lines were performing in terms of market share?

Lawrence Kurzius - McCormick & Company Inc - President and CEO
Well, if we set that aside, we'd essentially be flat on market share. That really is the disruption at the shelf due to the transition from kind of the conventional spices that were in gourmet to the new organic spices that really caused -- that disruption really accounted for nearly all of the share gap. The -- what else can I say about that? There's really -- that's, I mean, that's really the whole story there, Mario.

We're pretty pleased with our progress overall, and that gourmet was the one thing. I should add that it really wasn't a surprise. When we had our call back in -- last call back in June, we were in the middle of it. We knew what was happening, and we said on the call that this was going to happen, that there would be some disruption at the shelf.

I'm pretty encouraged that we'll have -- be worked -- I'm pretty optimistic that we'll have completely worked through it, by the time the real holiday season starts. The shipments that we experienced on gourmet don't really line up with the consumption. They were very strong at the end of the quarter, as our customers were restocking their shelves. So I'm pretty encouraged about that. But again, if I could just -- going back to your original question, the scanner data, but it's really a story about gourmet.

Mario Contreras - Deutsche Bank - Analyst
Okay. Thanks for that color. One other question, if I could shift to China on the industrial business. You've mentioned recently that there was a partial loss from a customer that was diversifying. Has there been any progress in terms of sourcing that business to other customers, or finding some way to offset some of the deleverage that might have happened there? Thanks.

Lawrence Kurzius - McCormick & Company Inc - President and CEO
Well, we certainly have a broad customer base in China, and we continue to work to build our business with local Chinese-based customers, both on the restaurant and food service side, and on the consumer food manufacturer. But this is a very large customer. And so, their diversification of their supply base is going to have an impact on our business, that is not something that can just be immediately made up.
I expect that we will -- we'll grow into it. But this customer had a problem with a supplier that put them in a bad business position, and they've made a strategic decision that they're not going to be sole-sourced on anything. And in the products that we supply, we were very close to the exclusive supplier. So as they diversify -- as that customer diversifies its supplier base, it does have an impact on us as well, due to their strategy.

**Mario Contreras - Deutsche Bank - Analyst**

Okay. Thank you very much.

**Operator**

Our next question comes from the line of Akshay Jagdale with Jefferies. Please proceed with your question.

**Lubi Kutua - Jefferies LLC - Analyst**

Hi, good morning. This is actually Lubi filling in for Akshay. So you mentioned in your press release that your Kohinoor business in India saw better results this quarter versus last year. I'm just wondering if you could provide us a bit more color on sort of what's driving that, and how you expect trends in that business to develop over the course of the near future?

**Lawrence Kurzius - McCormick & Company Inc - President and CEO**

Sure. I'm just going to say a few words about it. Last year, we exited a portion of the business that was very low margin and frankly executionally complicated. And so, we were able to simplify the business, improve the margin, and it left us with a business that was smaller than it was. And I think that's what the nature of the comments in the script were.

We are not going to elaborate a lot on Kohinoor, just because it is so small relative to the rest of our business. The Kohinoor business is less than 1%. It's actually less than -- it's approximately 0.5% of our business. And so, we don't -- we're not going to -- we're just not going to give too specific of a comment on a business unit that is that size.

**Mike Smith - McCormick & Company Inc - EVP and CFO**

But we have -- our strategy there longer term, is to roll out more spices and seasonings and recipe mixes, and that's still on track as we talked about in the past. So long-term, this is a great market for us.

**Lawrence Kurzius - McCormick & Company Inc - President and CEO**

And this is just one of three businesses that we have in India. The other two are on the unconsolidated line. They're nonconsolidated joint ventures.

**Lubi Kutua - Jefferies LLC - Analyst**

Okay. Thank you. That's helpful.

And then, you mentioned in your prepared remarks that you guys are expecting a near-term slowdown in the rate of margin improvement, and I'm assuming that bleeds into FY17 as well. Now I know you're not providing guidance for FY17 yet, but are there any other sort of high level puts and takes that we should be thinking about that might impact earnings growth for next year? Thank you.
Lawrence Kurzius - McCormick & Company Inc - President and CEO

We're really going to give some pretty robust earnings guidance for 2017 on our January call, as we always do. We're in the middle of putting together budgets right now, so any guidance that we could give would be probably incomplete and too soon.

We are giving some visibility that we're experiencing an increase in the commodity costs on those two particular commodities, and that we expect our pricing actions to cover that increase. But I don't think we're ready to give guidance on margins, other than to the extent that we're talking about Q4 right now.

Lubi Kutua - Jefferies LLC - Analyst

Thank you. I'll pass it on.

Operator

Thank you.

(Operator Instructions)

The next question comes from the line of Andrew Lazar with Barclays. Please proceed with your question.

Andrew Lazar - Barclays Capital - Analyst

Good morning, everybody.

Lawrence Kurzius - McCormick & Company Inc - President and CEO

Good morning, Andrew.

Andrew Lazar - Barclays Capital - Analyst

I just want to make sure I understand, what I should expect around the US consumer business in the fourth quarter. Is it that you have incremental visibility now that you've got a lot of this shelf reset worked its way through? Is it that you have visibility to an acceleration in consumption in the fourth quarter, or is it that the over-shipment in 3Q could result in a bit of an under-shipment in the fiscal fourth quarter?

Lawrence Kurzius - McCormick & Company Inc - President and CEO

Sure. Well, first of all, that over-shipment that you just referred to is just on gourmet, and it was really a restocking. It's actually making up an under-shipment in Q2 and Q3. When we spoke about this at the end of the Q2, Andrew, I think we said that we had actually restrained our shipments on gourmet at the end of Q2 to manage the transition. We didn't want to get a lot of returns of the old product as we went through the transition, and so we were rationing it out a bit.

And then, in Q3 there was some disruption at the shelf, and it was really just a refilling of the shelf. So no, I don't expect that we're going to see a slowdown. Actually we're quite encouraged by the strength of our holiday program in the US business. As we look to the holiday season, we're actually pretty optimistic that we're going to have both strong shipments and strong consumption.
Lawrence Kurzius - McCormick & Company Inc - President and CEO

We’re going to go back on air with the purity campaign. We got a tremendous lift from that campaign when we ran it earlier this year. So our holiday advertising will include purity.

When we ran that purity campaign, we not only got an immediate lift from it, but we also increased our penetration with millennials which kind of builds the franchise for the long-term. I think that we’re feeling pretty good about Q4 in the US.

Andrew Lazar - Barclays Capital - Analyst

Great. That’s helpful clarification there. And then, one just last one, just more to check my memory. I could remember this incorrectly, but I remember years ago when there was a vanilla issue, I think coming out of Madagascar, there might have been efforts to try and expand, or diversify the sourcing of vanilla into some other markets and growing regions. I know it’s kind of hard to do, and it takes time for that to develop, but whether it be in areas like in Vietnam and others.

I guess, what ever became of that? Is it still happening, but it’s not big enough to really make up the difference in terms of Madagascar sourcing? Or it’s more out of curiosity on my part?

Lawrence Kurzius - McCormick & Company Inc - President and CEO

Hey, that’s the advantage of having a long memory there, Andrew. We did have a vanilla shortage back in 2003, 2004 and 2005. And that’s right around the time I came to the Company. So some of this, what happened then is old lore for me. But subsequently, there was quite a big market decline, and many of those sources dried up due to market pricing.

We are, ourselves, working actively to develop the growth of vanilla in a number of regions of the world, and including a pilot operation that we have to grow our own. But those are efforts that will take a little bit of time to bring on-stream. And right now, 85% of the world’s vanilla comes from Madagascar, and that’s where the shortage is.

A lot of the change is not so much around supply, but around demand. As consumers want to move to more natural flavors, there’s a shift in market demand away from artificial vanilla and vanillin, to being able to label the product straight up vanilla or vanilla beans. So we do have an effort underway to develop those alternate sources.

Again, I’ll just emphasize that we believe that nobody has an advantaged position right now in the market versus us. And we know just from the customer inquiries that we’re getting, that in fact we probably have an advantaged position versus a number of our competitors.

Andrew Lazar - Barclays Capital - Analyst

Great. Thank you very much.

Operator

Thank you. At this time, I will turn the floor back to Lawrence Kurzius for closing remarks.
Lawrence Kurzius - McCormick & Company Inc - President and CEO

Well, I'd like to thank everyone for your questions, and for participating on today's call. Through our growth strategies and our people, our experienced leaders and our engaged employees, we're driving strong performance at McCormick. We're executing on a strategy designed to build long-term value for our shareholders, and we look forward to reporting to you on our continued progress.

Joyce Brooks - McCormick & Company Inc - VP of IR

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