



*McCormick Brings  
Passion to Flavor*

Third Quarter 2013 Financial Results and Business Outlook

September 26, 2013

The following slides accompany a September 26, 2013 presentation to investment analysts. This information should be read in conjunction with the press release issued on that date.



## Forward-looking information

Certain information contained in these materials and our remarks are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. These statements may be identified by the use of words such as “may,” “will,” “expect,” “should,” “anticipate,” “believe” and “plan.” These statements may relate to: the expected results of operations of businesses acquired by us, the expected impact of raw material costs and our pricing actions on our results of operations and gross margins, the expected productivity and working capital improvements, expectations regarding growth potential in various geographies and markets, expected trends in net sales and earnings performance and other financial measures, the expectations of pension and postretirement plan contributions and anticipated charges associated with such plans, the holding period and market risks associated with financial instruments, the impact of foreign exchange fluctuations, the adequacy of internally generated funds and existing sources of liquidity, such as the availability of bank financing, our ability to issue additional debt or equity securities and our expectations regarding purchasing shares of our common stock under the existing authorizations.

These and other forward-looking statements are based on management’s current views and assumptions and involve risks and uncertainties that could significantly affect expected results. Results may be materially affected by external factors such as: damage to our reputation or brand name, business interruptions due to natural disasters or similar unexpected events, actions of competitors, customer relationships and financial condition, the ability to achieve expected cost savings and margin improvements, the successful acquisition and integration of new businesses, fluctuations in the cost and availability of raw and packaging materials, changes in regulatory requirements, and global economic conditions generally which would include the availability of financing, interest and inflation rates and investment return on retirement plan assets, as well as foreign currency fluctuations, risks associated with our information technology systems, the threat of data breaches or cyber attacks, and other risks described in our filings with the Securities and Exchange Commission.

Actual results could differ materially from those projected in the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

## Third quarter 2013 results and business update



**Alan Wilson**  
*Chairman, President & CEO*

## Third quarter 2013 overview

### ❖ Progress during quarter to advance growth initiatives

- Strong product innovation
- WAPC off to great start
- Increased investment in brand marketing
- Raising projected 2013 CCI cost savings to at least \$55 million

### ❖ Third quarter financial results

- Grew sales 4%, led by WAPC and sales shift from 4Q 2013
- Gross profit margin even with 3Q 2012, following four quarters of decline
- Operating income increase of 3%
- Lower than expected tax rate of 26%
- EPS of \$0.78, in line with expectations and comparable to year-ago result

## Third quarter 2013 overview

### ❖ **Consumer business grew sales 8% in local currency and operating income 9%**

- WAPC contributed 5% to sales increase
- U.S. retailer purchases shifted estimated \$30 million from 4Q 2013 to 3Q 2013
  - Stronger response to this year's holiday display program, designed to encourage adequate inventory and early displays
  - Buy-in on price increase effective 4Q 2013
- Underlying sales weakness due to softness in consumer demand early in 3Q 2013
- Grew consumer business sales in Americas 3% year-to-date, excluding impact of sales shift

## Third quarter 2013 overview

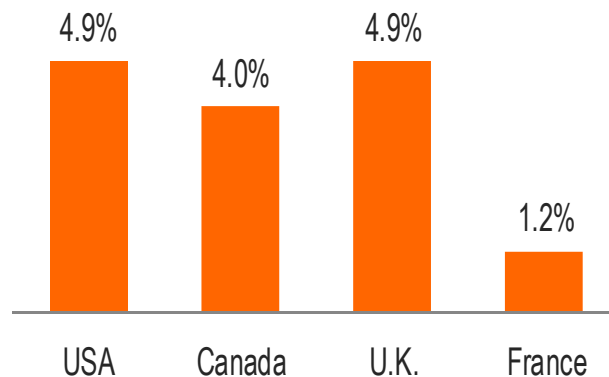
### ❖ Industrial business sales comparable to 3Q 2012 in local currency and operating income declined 16%

- As expected, weak demand from quick service restaurants in U.S.
- Sales in China better than expected with recovery beginning in demand from quick service restaurants
- Operating income decline attributable to unfavorable mix of business, higher retirement benefit costs and increased material costs

## Current business conditions

### ❖ Consumers in many markets under pressure in today's economy

- Increase in category growth for spices and seasonings remains strong
- Many consumers preparing meals at home to explore new flavors, improve healthy eating, manage their budget



Spices and seasoning category  
is growing in developed markets

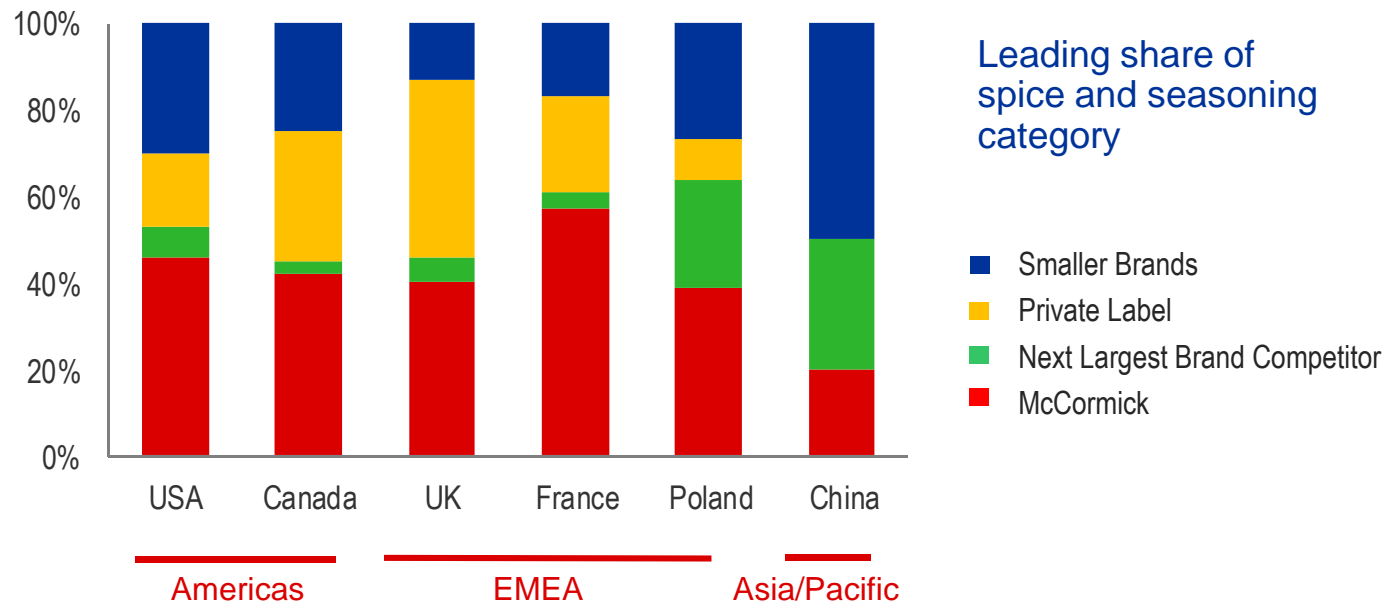
Source: 52 week dollar sales for spice and seasoning category; U.S. IRI period ended Aug 2013; Canada Nielsen period ended Aug, 2013; U.K. National grocery period ended Aug 2013; France National Grocery period ended Aug 2013



## Current business conditions

### ❖ Consumers in many markets under pressure in today's economy

- Consumers are managing their budget with private label
- McCormick has advantage of strong brand leadership in spices and seasonings, supplying range of products from opening price point to premium gourmet



Source: IRI, Nielsen, National Grocery Dollars 52 wks/ended May 2013;  
Poland April/May 2013; China 2Q 2013

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## Current business conditions

### ❖ Consumers in many markets under pressure in today's economy

- McCormick has advantage of strong brand leadership across a number of other categories

48% share Asian convenience in U.S.



#1 wet marinade in U.S



43% share homemade desserts in France



54% share honey in Canada



61% Share mayonnaise in Mexico



#1 mustard in Poland



84% share gelatin in Australia



Note: Share in Mexico is that of joint venture; Share of honey in Canada includes brand and private label. Share information based on latest syndicated scanner data.

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## Current business conditions

### ❖ Consumers in many markets under pressure in today's economy

- Weakness in food service industry impacting McCormick as a supplier
- Sales growth rates varies across packaged food industry
  - Pressure on McCormick as supplier to help customers reduce costs
- Long-term relationships with multi-national industry leaders
  - Recognize that innovation can help restore growth
  - Encouraged by 2014 new product pipeline



## 2013 Outlook

❖ **Expect to grow both sales and adjusted EPS\* approximately 7% in fourth quarter**

- Improving trends in U.S. spice and seasoning category
- Approximately \$10 million increase in brand marketing support
- Favorable comparison to 4Q 2012

❖ **Projections moderated to lower end of 4% to 6% sales growth range and lower end of \$3.13 to \$3.19 adjusted EPS range\***

❖ **In 2014, expect stronger financial performance**

- Progress with growth initiatives
- Low single digit material cost increase
- Less headwind than in 2013 from retirement benefit expense and tax rate

\* See reconciliation of GAAP to non-GAAP financial measures on slide 36

# Progress with growth initiatives

## ❖ Acquisitions

- WAPC sales and profit exceeding expectations
  - Integration process on target
  - Sales and marketing activity underway in central China
  - Introducing WAPC products in coastal regions
- Solid pipeline of acquisition opportunities





# Progress with growth initiatives

## ❖ Innovation: consumer products in markets around the world

- U.S. – Grill Mates steak sauce, Zatarain's microwaveable rice, gourmet recipe mixes
- France – premium gourmet spice line, recipe mixes
- U.K. – Flavour Shots
- Poland – recipe mixes
- China – squeezable ketchup, 13 spice blend
- Australia – Aeroplane desserts
- India– rice & seasoning blends



## ❖ Solid pipeline of 2014 industrial products

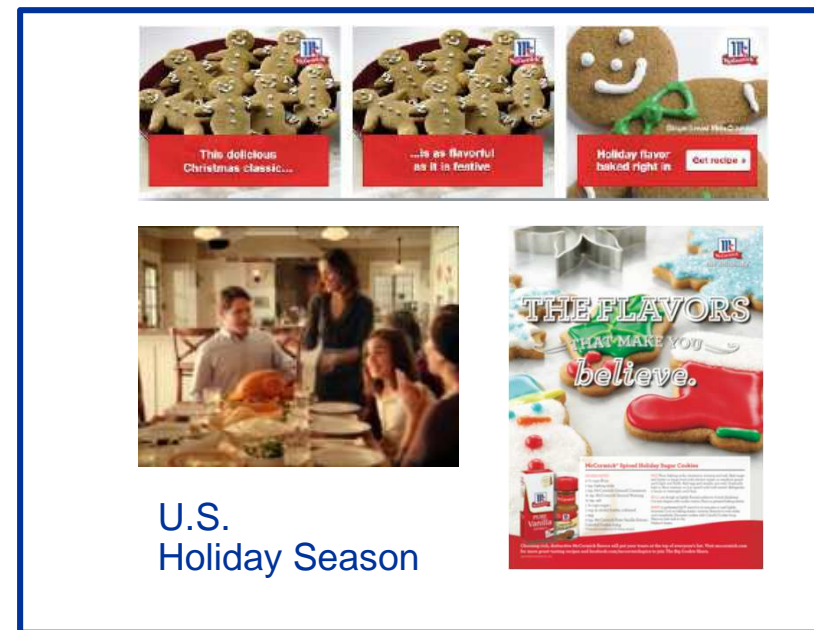
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# Progress with growth initiatives

## ❖ Brand marketing

- Increase of approximately \$10 million planned for 4Q 2013
  - EMEA holiday activity
  - Asia/Pacific new product awareness and trial
  - Americas themed mega events for fall cooking and holiday season



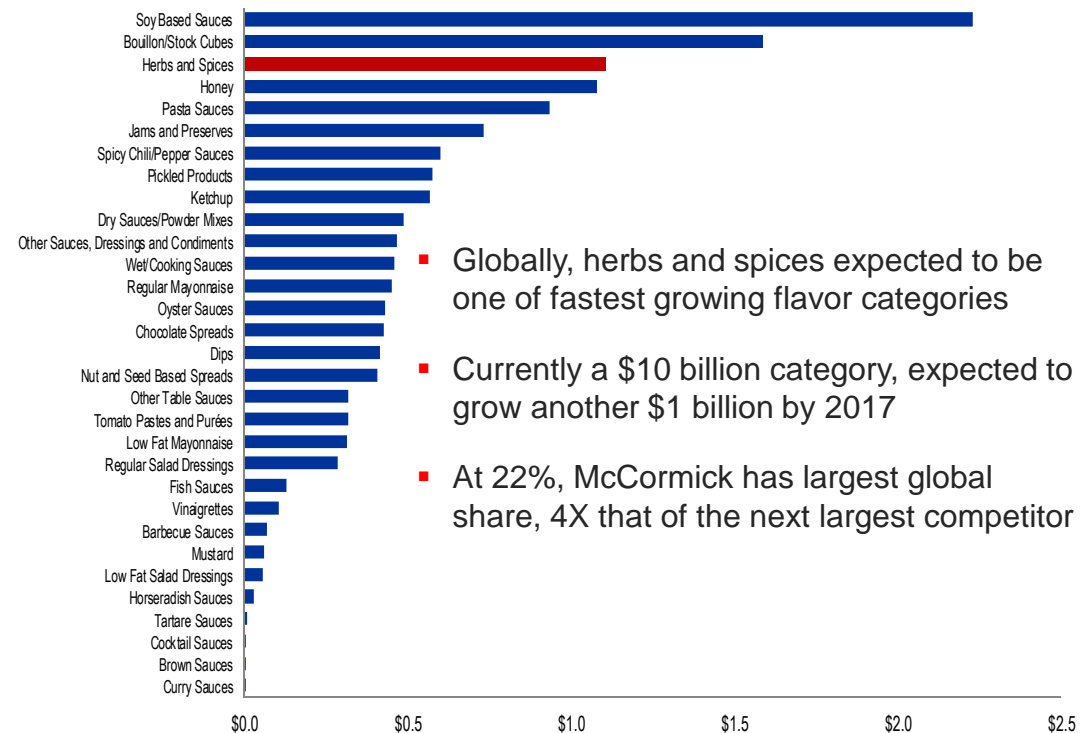
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# Summary

- ❖ Increased interest in flavor underpinning growth initiatives
- ❖ Meeting demand with broad portfolio and increasing geographic presence
- ❖ McCormick employees driving our success

Projected sales growth for flavor categories 2012 to 2017



- Globally, herbs and spices expected to be one of fastest growing flavor categories
- Currently a \$10 billion category, expected to grow another \$1 billion by 2017
- At 22%, McCormick has largest global share, 4X that of the next largest competitor

Source: Euromonitor in \$ billions

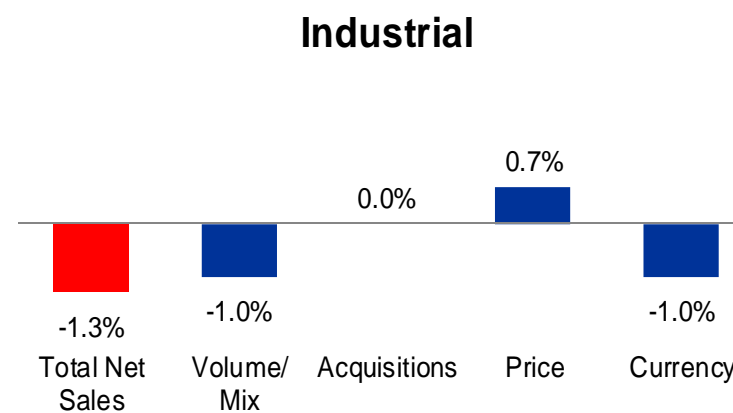
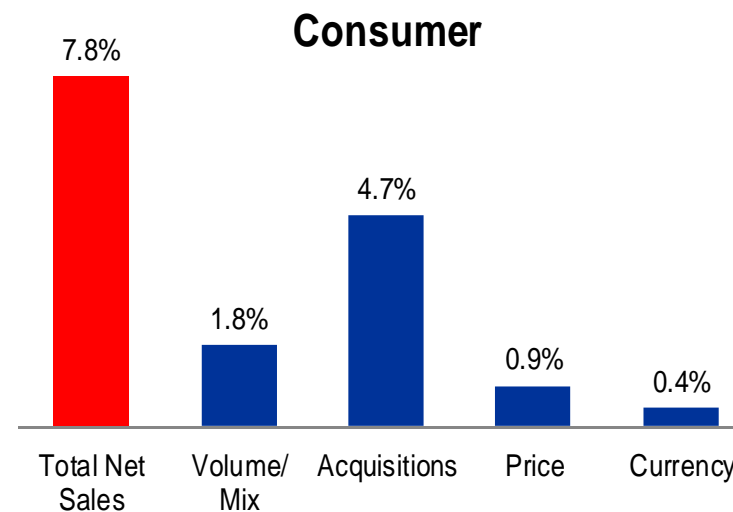
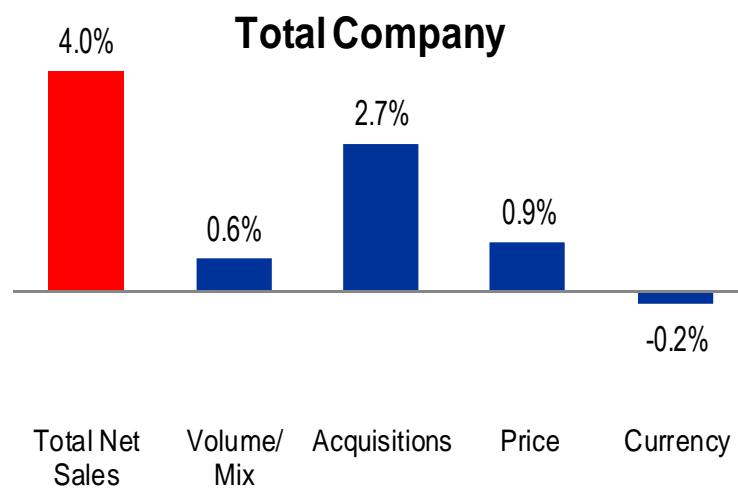


## Third quarter results, latest guidance for 2013



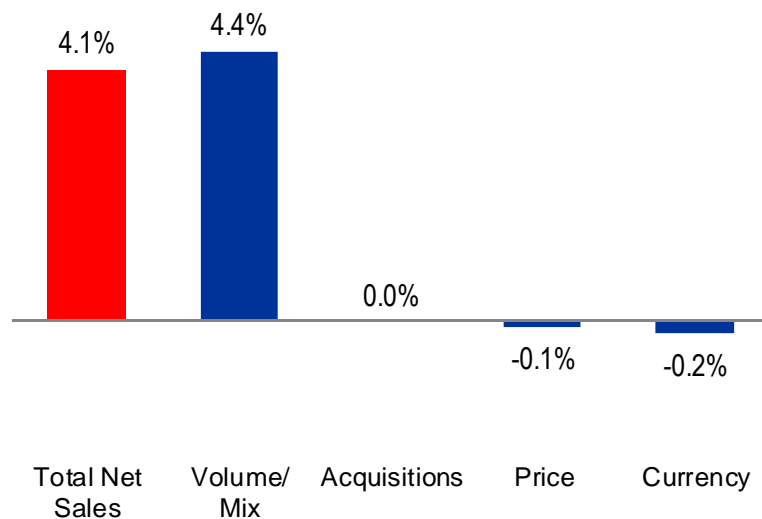
**Gordon Stetz**  
*Executive Vice President & CFO*

## 3Q 2013 Sales results



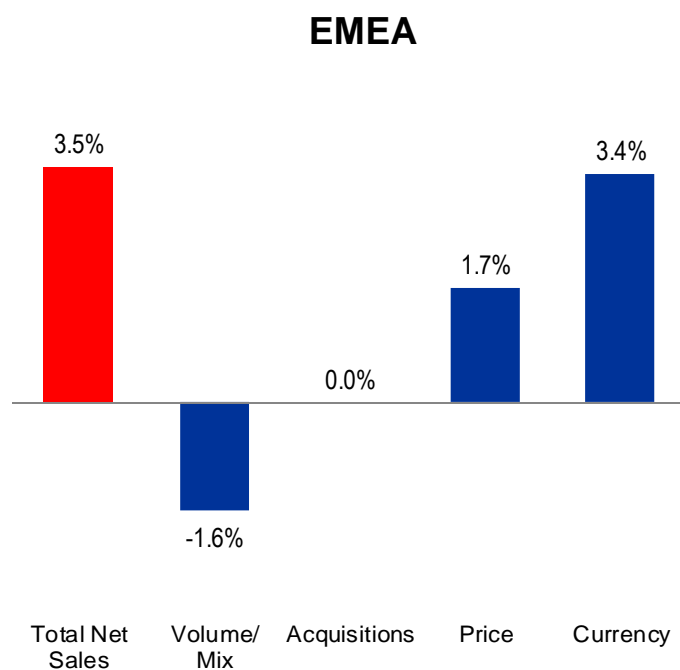
## 3Q 2013 Sales results: Consumer business

### Americas



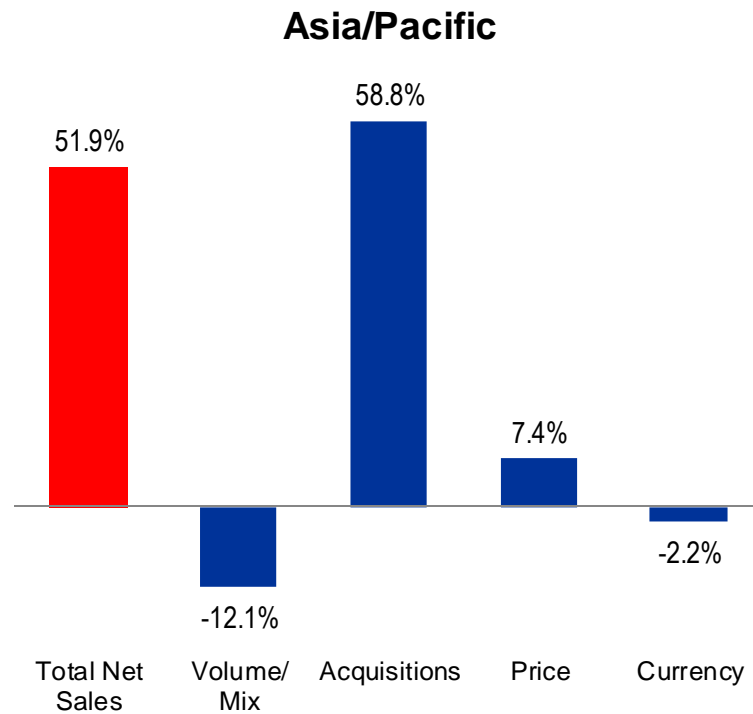
- ❖ Approximately \$30 million shift in sales from 4Q 2013 to 3Q 2013 contributed 8% to sales growth
- ❖ Underlying decrease of 4% due to softness in consumer demand early in 3Q 2013, following 6% growth rate in 1H 2013
- ❖ Year-to-date grew sales 3%, excluding shift in sales
- ❖ In 4Q 2013, expect benefit of pricing action and favorable comparisons to sales impact in 4Q 2012 from Hurricane Sandy and retailer purchase patterns

## 3Q 2013 Sales results: Consumer business



- ❖ Innovation and incremental brand marketing drove sales in Poland and western Europe
- ❖ U.K. impacted by weak retailer sales across a number of food categories.

## 3Q 2013 Sales results: Consumer business



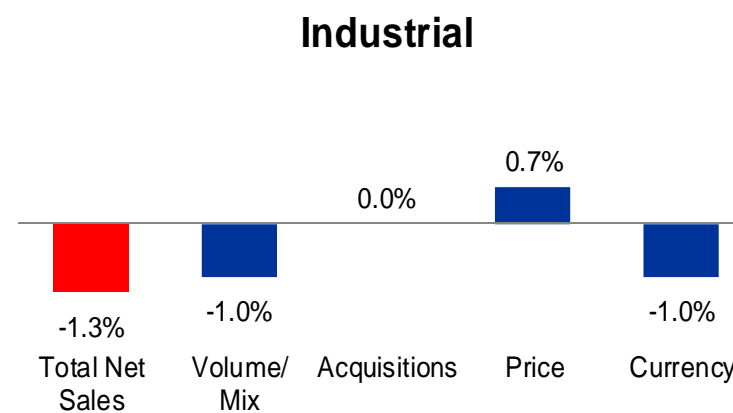
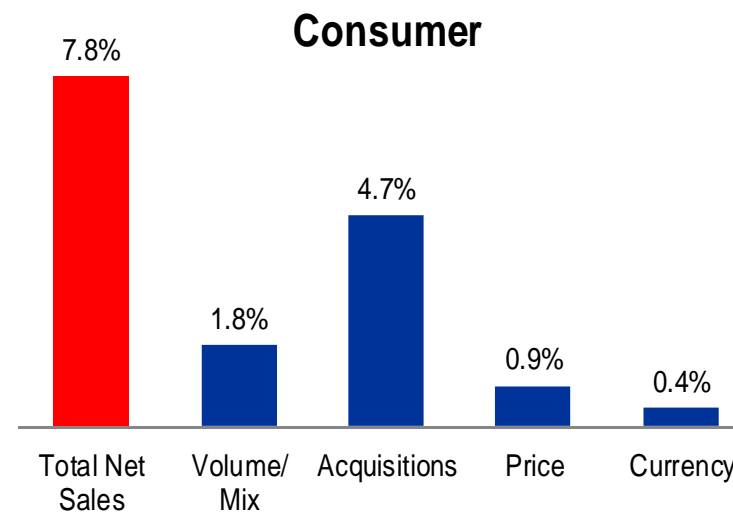
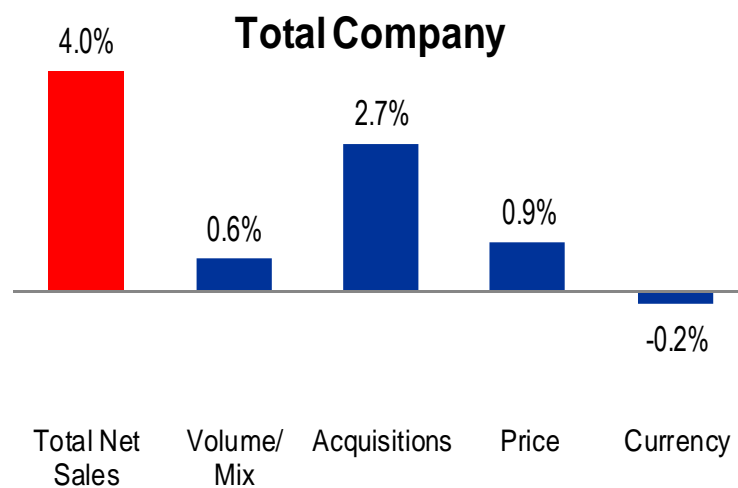
- ❖ WAPC contributed 59% to growth
- ❖ Grew sales in China 10% in local currency, excluding WAPC
- ❖ Sales in India declined 27% in local currency, as consumers reacted to a significant increase in the cost of rice

## 3Q 2013 Operating income: Consumer business

	3Q 2013	3Q 2012	Fav(Unfav) Change
Operating income	\$118.7	\$108.9	9%

- ❖ Favorable impact from higher sales and CCI cost savings
- ❖ Offset in part by higher retirement benefit expense, \$3 million of incremental brand marketing, material cost inflation

## 3Q 2013 Sales results



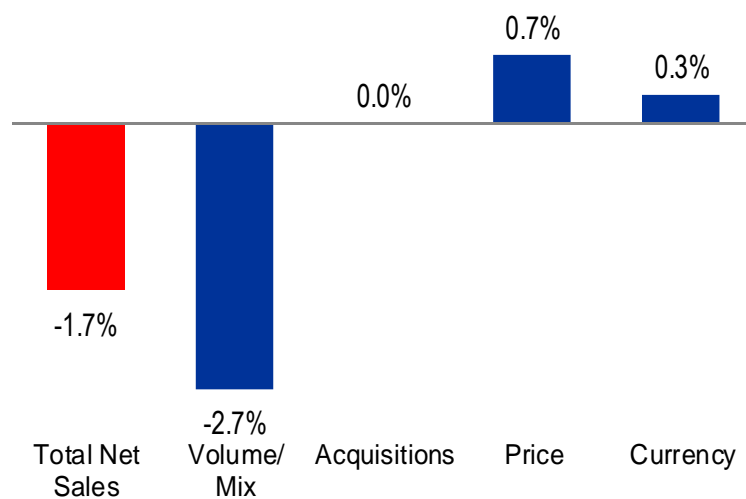
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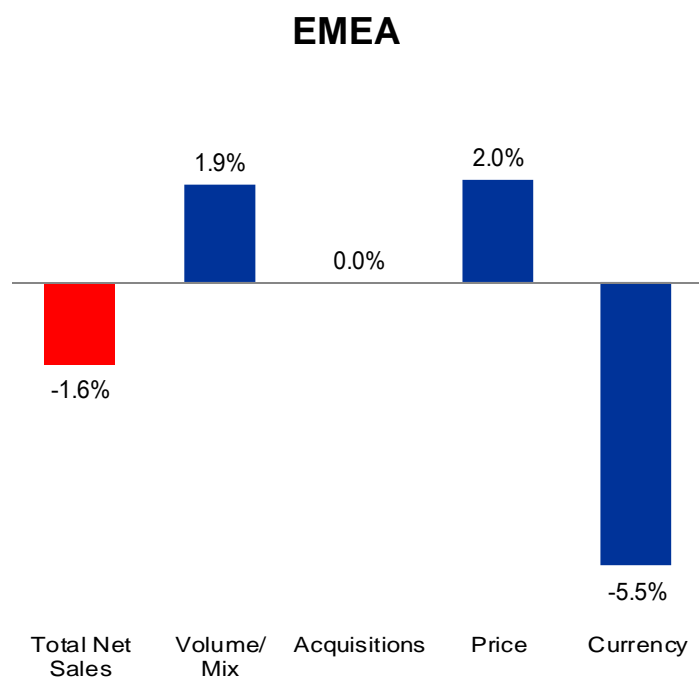
## 3Q 2013 Sales results: Industrial business

### Americas



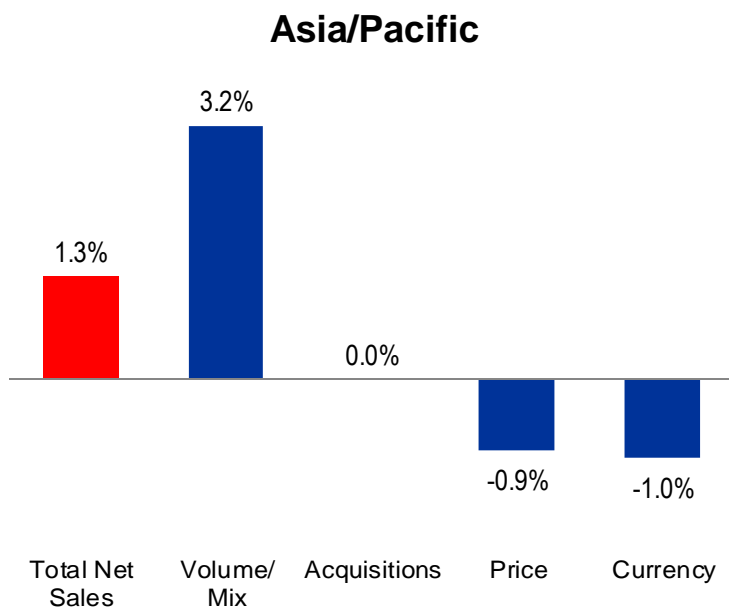
- ❖ Sales growth with food manufacturers offset by lower demand for customized products from quick service restaurants

## 3Q 2013 Sales results: Industrial business



- ❖ Similar contributions from pricing and volume and product mix
- ❖ Increased demand for customized flavor solutions from quick service restaurants

## 3Q 2013 Sales results: Industrial business



- ❖ Improvement in China with sales to quick service restaurants
- ❖ Expect further improvement in 4Q 2013

## 3Q 2013 Operating income: Industrial business

	3Q 2013	3Q 2012	Fav(Unfav) Change
Operating income	\$29.7	\$35.3	(16%)

- ❖ Unfavorable impact from lower sales, business mix, material cost inflation, higher retirement benefit expense
- ❖ Offset in part by pricing actions and CCI cost savings
- ❖ Expect operating income to improve in 4Q 2013, due in part to \$4 million costs for supplier quality issue in 4Q 2012

## Operating income, gross profit, SG&A

	3Q 2013	3Q 2012	Fav(Unfav) Change
Operating income	\$148.4	\$144.2	3%
Gross profit margin	40.1%	40.1%	-
Selling, general & administrative expenses as percent of net sales	25.5%	25.4%	(10 bps)

- ❖ Operating income grew \$4 million
  - Favorable impact of higher sales and CCI cost savings
  - Offset in part by approximately \$5 million increase in retirement benefit expense, \$4 million of incremental brand marketing support, material cost inflation
- ❖ Gross profit margin even with 3Q 2012
- ❖ SG&A similar percentage of net sales compared to 3Q 2012

## Income taxes

	3Q 2013	3Q 2012
Income taxes	\$35.3	\$33.0
Income tax rate	26.2%	25.0%

- ❖ Tax rate of 26.2% impacted by \$3 million discrete tax item
- ❖ Expect tax rate for 4Q 2013 to be approximately 29% due to current mix of earnings across tax jurisdictions
- ❖ Prior guidance was 29.5%

## Income from unconsolidated operations

	3Q 2013		3Q 2012	Fav(Unfav) Change
Income from unconsolidated operations	\$5.0		\$5.5	(9%)

- ❖ 2013 outlook remains 10% increase, following 33% growth in 1H 2013
- ❖ Unfavorable impact in 2H 2013 from costs to relocate Mexican JV's production to new facility



## Earnings per share of \$0.78

	3Q 2013	3Q 2012	Fav(Unfav) Change
Earnings per share	<b>\$0.78</b>	\$0.78	-
Increased operating income		0.02	
Higher tax rate		(0.01)	
Net impact lower shares, higher interest expense, lower JV income		(0.01)	
		<u>\$0.00</u>	

## Balance sheet and cash flow

- ❖ Increases in working capital related largely to WAPC and holiday display program in U.S.
- ❖ Issued \$250 million of debt with 10 year notes at 3.5% coupon, a 90 bps spread to U.S. treasuries
- ❖ Year-to-date cash flow \$227 million compared to \$256 million in first three quarters of 2012; difference mainly due to timing of tax payments and higher receivables
- ❖ In 4Q 2013, expect to complete current \$400 million share repurchase authorization with \$45 million remaining at 8/31/13 and then begin repurchases under new \$400 million repurchase authorization approved April 2013

# Lump sum payout program

## **Lump sum payout program expected to reduce size and volatility of U.S. pension plan**

- ❖ Lump sum payout offered to approximately 3,300 former U.S. employees with deferred vested pension plan benefits
- ❖ Strong response rate with payout of approximately \$60 million from pension funds
- ❖ Expect to record settlement charge of approximately \$20 million in 4Q 2013
  - Expected to lower EPS ~\$0.10
  - Will provide supplemental non-GAAP EPS exclusive of this charge

## 2013 Outlook

### **Sales growth in local currency**

### **Adjusted operating income \***

CCI cost savings

Material cost inflation

Incremental brand marketing

Increase in retirement benefit expense

Income from unconsolidated operations

Tax rate

### **Adjusted earnings per share\*\***

Capital expenditures

Shares outstanding

**Lower end of 4% - 6%**

**3% - 5%**

At least \$55 million

~3% increase

~\$13 million

\$22 million

~10% increase

~29% in 4Q 2013

**Lower end of \$3.13 - \$3.19**

\$110-\$120 million

~1% reduction

- Excludes approximately 3% impact from lump sum pension payout settlement charge

\*\* See reconciliation of GAAP to non-GAAP financial measures on slide 36

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## 2013 Outlook

	2013 Estimate	2012
Adjusted EPS*	lower end of \$3.13-\$3.19	\$3.04
Growth rate	~3%	

Estimated impact of items affecting 2013 adjusted EPS growth rate:

Tax rate increase	\$0.08
Retirement benefit expense increase	0.11
	<hr/>
	\$0.19
<b>Impact on growth rate</b>	<b>6 percentage points</b>

\* See reconciliation of GAAP to non-GAAP financial measures on slide 36



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## Non-GAAP Financial Measures

The table below includes a financial measure of projected diluted earnings per share excluding the expected estimated impact of a \$20 million U.S. pension settlement charge in the fourth quarter. This is a non-GAAP financial measure which is prepared as a complement to our financial results prepared in accordance with United States generally accepted accounting principles. We believe this non-GAAP information is important for purposes of comparison to prior periods and development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of our ongoing operations and analyze our business performance and trends. Management believes the non-GAAP measure provides a more consistent basis for assessing the Company's performance than the closest GAAP equivalent.

This non-GAAP measure may be considered in addition to results prepared in accordance with GAAP, but it should not be considered a substitute for, or superior to, GAAP results. We intend to continue to provide this non-GAAP financial measure as part of our future earnings discussions and, therefore, the inclusion of this non-GAAP financial measure will provide consistency in our financial reporting. A reconciliation of this non-GAAP measure to GAAP financial results is provided below.

### Fiscal year 2013 Projections

Earnings per share	\$3.03 to \$3.09
Impact of \$20 million settlement charge	<u>.10</u>
Adjusted earnings per share	<u>\$3.13 to \$3.19</u>

(a) The company has guided to the lower end of the earnings per share range and adjusted earnings per share range for fiscal 2013.