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MKC - McCormick & Company Inc at Barclays Back to School Conference

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PRESENTATION

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Presentation

Andrew Lazar - *Barclays Capital - Analyst*

Alright, everybody. If we could just find our seats we'll kick off our next presentation. We're very pleased to yet again be hosting McCormick at Back to School. After experiencing some challenges last year, McCormick has been quick to take action, investing aggressively in brand building and realigning its sales organization. While it's only been two quarters, the Company's had some early wins and is already seeing signs of improvement. Meanwhile, the Company's enjoying strong growth in its international markets, including the smooth integration of Wuhan Asia-Pacific Condiments in China.

We're excited to welcome President and CEO Alan Wilson, and President Americas and China and CAO Lawrence Kurzius to our Back-to-School Conference. And of course we've got Gordon in, the CFO, who everybody knows as well.

One reminder: McCormick will not host a breakout session today as the Company is in its quiet period. And with that I will turn it over to Alan. Thank you.

Alan Wilson - *McCormick & Company, Inc. - Chairman, President & CEO*

Thanks, Andrew, and good afternoon to everyone in the room and those joining us by webcast. We really appreciate the opportunity to participate in this year's Barclays Back-to-School Conference.

McCormick is a global leader in flavor with on-trend products that are growing in markets all around the world. I'll get us started on the remarks on the rising consumer demand for flavor, our leadership position and McCormick's growth model. After that, Lawrence is going to update you on the actions underway to regain momentum in our US consumer business.

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

We're operating in a dynamic environment with a number of factors that are affecting today's food industry. Shifts in demographics, including the rise of millennials, aging boomers and the expansion of cultural influences with more ethnically diverse populations; shifts that are requiring many companies to reassess and adapt.

Many consumers remain under pressure and are seeking value-priced products and lower-cost meals. And exceptionally competitive retail conditions across channels -- traditional, discount, club, natural, ecommerce -- and the fierce battle for the consumer within each of these channels. This pressure on retailers carries over to pressure on manufacturers in pricing, promotions and fragmentation. And different choices are being made by consumers when they're eating out; different choices in what they eat and where they eat.



While views on the health of the food industry segments and channels and the factors affecting them may vary, most of us can agree that flavor has remained the number one factor in our choice of food. In recent studies conducted in the US at a 90% response rate, taste is the top factor impacting food and beverage purchases. This demand for flavor is global and it's growing.

As I stated, McCormick is the global leader in flavor. For our largest growth platform, spices and seasonings, we're seeing impressive category growth in both developed and emerging markets. Shown here is the average growth rate looking back five years and a projection by Euromonitor for the next five years. In developed markets the annual pace of growth is 4% and in emerging markets it's an even more robust 10%. Globally, Euromonitor projects this \$10 billion category to grow to \$14 billion by 2018.

Our second largest growth platform in the consumer business is recipe mixes, currently a \$5 billion category with a five-year projected growth rate of 13% in emerging markets where McCormick has an increasing presence. Beyond these growth platforms, this outlook is for increases in a number of flavor categories where we participate, including bouillons, sauces, condiments and spreads.

Let's take a look at some of the factors driving the increased demand for flavor. One is the rise of millennials, the influence of ethnic demographics, social media, the move towards healthier eating and the rise of the middle-class consumer in emerging markets. For each of these trends McCormick is extremely well positioned.

In the US, as millennials move into their 20s and 30s, we're seeing a strong interest in cooking; even greater than the baby boomers. This is great news for McCormick. Today's millennials love to cook, with 64% making this statement versus 52% of the remaining US population. More than one-third indicate they're also more health conscious when it comes to the food that they eat and they define value as real food, quality food and unique food.

In Europe the trends are similar; 81% of millennials want meals to be full of flavor, two-third thoroughly enjoy cooking and more than half try to cook healthy. That's good news for us. With our foundation in herbs and spices we have the products and solutions to satisfy their discerning demand for both value and healthy food. In this market, both McCormick's gourmet and everyday products are well represented in millennial households.

Consumers of all ages are fascinated by other cultures and their food. Ethnic fare now accounts for 44% of all US flavoring occasions. This interest is especially true for consumers ages 18 to 34. These trends in the US are similar in our other developed markets. Latino, Middle Eastern, Asian and African cuisine, each feature dishes that rely heavily on the use of spices and herbs. This is also leading to significant opportunities in seasoning blends and recipe mixes, as well as other brands of ours like Thai Kitchen to help all consumers easily prepare an authentic ethnic meal. Our 2014 flavor forecast captures these trends, featuring Massaman from India, Chamoy Sauce from Mexico and Bahian seasoning from Brazil.

Consumers are increasingly connected, largely through social media. They are sharing recipes, meal ideas and lots of food photos of food prepared at home and ordered from a menu. McCormick has industry-leading digital programs as engaging consumers at multiple points of influence with our Facebook grilling communities, online cooking videos, Pinterest brunch menus and our latest addition, FlavorPrint.

There is a measurable shift toward healthy eating in many markets around the world with increased sales of fresh produce and waning demand for certain processed foods. The latest US report on food and beverage purchases shows that after taste and price health ranks as the third-largest impact at a 71% response rate. This is up 10 percentage points from just 2 years ago.

More and more consumers, from millennials to boomers, are working to improve their nutrition and reduce calories, reading labels, seeking simple ingredients and reducing sodium, sugars and fats. Herbs and spices are an ideal way to add back the flavor. Consumers recognize this and it's spurring category growth. Our industrial customers recognizes this as well. In the past three years about a third of new product [briefs] for these customers had some type of health and wellness benefit.

At McCormick we're also helping to advance scientific understanding of the health benefits of culinary spices and herbs. Founded in 2007, the McCormick Science Institute has sponsored 22 clinical trials to evaluate the effectiveness of ginger, rosemary, red pepper and other spices and herbs in improving diet quality. In addition, we're partnering with government agencies and industry organizations to inspire healthy choices.

As for the rising middle class in emerging markets, the implications of this demographic change for our categories are very compelling. Markets like India and Turkey where we participate have some of the highest per capita usage of spices and herbs. As incomes rise, families want the convenience, quality and safety of branded seasonings and recipe mixes. Euromonitor measures herbs and spices globally as a \$10 billion category. We estimate another \$10 billion of herbs and spices are still purchased by consumers in bulk, mainly in emerging markets. Over time, we expect the demand for herbs and spices as a packaged food item to continue to build.

Now let's turn to my second point, our leadership position. At McCormick our mission is to save your world from boring food. We have leading brands of spices, seasonings and recipe mixes in markets around the world and a strong position in other flavor categories. As a supplier to leading flavor and beverage multinational companies, we flavor iconic brands in snacks, cereals, beverages, convenient meals and other food products throughout the grocery store. If you're eating out, we supply most of the top 10 restaurants globally, chains globally, as well as other regionally based food service distributors. Across our consumer and industrial businesses we have a passion for flavor and we bring the joy of flavors every day.

For our largest category, herbs, spices and seasonings, we have a 21% global share. This share is well ahead of our next-largest branded competitors and still offers lots of room for expansion. We have a leading share in many of our top markets where the branded competition is generally pretty fragmented. While private label also has a large share of the category, we're a major supplier with approximately half of the private label spice and seasoning volume in the US and participation in some of the other countries as well. We're also a leading brand in recipe mixes and across our regional brands as shown here, brands such as Thai Kitchen in the US, Vahine Dessert items in France and Kamis mustard in Poland.

With \$1.6 billion of net sales in 2013, our industrial business supplies the top food manufacturers and leaders in the restaurant industry. Our geographic presence promotes consumer intimacy and customer intimacy and keeps us at the forefront of local trends and we have one of the broadest product portfolios among our competition.

Across both segments, consumer and industrial, we believe that each day you're likely to enjoy food that's been flavored by McCormick. As illustrated here, our consumer business currently comprises 61% of our net sales and our industrial business 39%.

Established a decade ago, McCormick's growth model is simple: to drive sales and profits by investing in the business, and to fuel this investment with our comprehensive continuous improvement program, CCI, an initiative that's improving productivity throughout our organization. This growth model has led to high performance. Since 2007 we've grown sales more than 40%, adjusted earnings per share by 64% and generated strong cash flow. And for the past 5-, 10- and 20-year periods, total shareholder return has exceeded 10%.

We're committed to invest to grow our business. Our investments in R&D are driving sales. In recent years the percentage of sales from new products launched in the last three years has ranged from 8% to 10%. In the past three years we've expanded our R&D facilities and capabilities in the US, United Kingdom, South Africa, China and Mexico. We now have a global product development footprint which enables us to develop winning products tailored to every market's tastes and trends.

We've increased the marketing support for our brands and are leveraging superior ROIs. We expect our level of brand support in 2014 to be double what it was in 2007.

Another area of investment is acquisitions. Acquisitions are an integral part of our growth model and we're contributing about one-third of our total growth. Based on a report card that we prepared for our Board of Directors in late 2013, we measured financial results at or above target for 83% of the \$1.3 billion invested in acquisitions since the beginning of 2008. We also invest in the quality of our products and tend to improve our impact on the environment.

Consumers and customers around the world care about food safety, taste and quality and McCormick is the taste to trust. We're the global leader in sourcing of herbs and spices and our team travels the world sourcing ingredients from about 40 countries. This on-the-ground presence helps us influence sustainable growing practices, insure traceability and gain insights into crop conditions and price movements.



In 2013 we set goals to improve our impact on the environment and we're making strong progress. As an example, we've reduced solid waste on a per-unit basis by nearly 40% since 2009 and we're well on our way toward an aggressive goal of 50% by 2018. We're proud to be included as a top US company in Newsweek's Green Rankings. In this ranking criteria included reputation for quality and our use of resources, such as energy and water.

We're fueling these investments with our comprehensive continuous improvement program, CCI. We have a long history of gradual improvement and productivity improvement at McCormick and a goal to achieve cost savings of at least \$45 million annually. Since the launch of CCI in 2009, we've exceeded this goal, averaging about \$56 million in annual savings. This program spans a range of projects from global procurement efforts to manufacturing, where our employee teams are reducing losses, improving production efficiencies and improving quality.

We're also streamlining administrative activity. As an example, we're centralizing transaction activities in a new shared service center in Poland.

The financial discipline of EVA at McCormick has led to strong cash generation. We have a balanced approach to our use of cash, including capital expenditures, acquisitions, share repurchases and dividends. For capital expenditures we have a hurdle with projected returns of at least 15% on these funds with one-third of the spending to be in support of our growth initiatives. As for dividends, we have a long history of returning cash to shareholders. We've paid a dividend every year since 1925 and we've had an annual increase in each of the last 28 years. From 2006 to 2013 we doubled our quarterly dividend.

At this point I'd like to turn it over to Lawrence Kurzius, President of Americas and China and our Chief Administrative Officer, who's going to discuss McCormick's US consumer business. This is an area of investor interest and we want to update you on our plan to drive growth. I can assure you that improving the performance of this business is one of my key priorities for 2014. We're here to win in the US and in every part of our business. Lawrence?

Lawrence Kurzius - McCormick & Company, Inc. - President Americas, China & Chief Administrative Officer

Thank you, Alan.

It's a pleasure to be with you here today. Earlier this year I had a chance to participate in the CAGNY Conference and, as part of my remarks at CAGNY, I described our actions underway in the US business to pursue growth opportunities and address the recent sales pressure. It's six months later and I want to report to you on our progress and some early success.

As we stated in our discussion of second quarter results, this is not a quick fix. To offer some perspective, for the past several years our Americas consumer business, driven largely by sales in the US, has had solid growth with contributions from both volume and pricing. The rising consumer demand for flavor that Alan described has helped drive these results.

There is also a move on the part of many food retailers towards streamlining the supply chain and rationalizing SKUs. This is to McCormick's benefit. Although private label grew in category share as low-income consumers sought value, it was the smaller brands on the shelf that came under pressure.

In 2013 certain retailers began to bring some other spice and seasoning brands into their stores in both the home department and other sections. The competitive items included value-priced offerings, premium products and ethnic items. This fragmentation of the spice and seasoning category is not unique as that is occurring across a number of other food categories, too. For McCormick, this move by retailers to expand their product assortment began to impact our sales in the second half of 2013 and into the first half of 2014.

So, let's move on to the steps we are taking to regain momentum in our US consumer business and some early signs of success. I want to put our actions in the context of these five consumer business growth strategies set by our Global Consumer Strategy Council: driving our core platforms globally, building our brands, accelerating innovation, continuing to expand our geographic footprint and deepening intimacy with our retail customers.

Our actions underway in the US business largely fit into brand building, innovation and customer intimacy. We expect to drive growth in this market by aggressively strengthening our brand equity with consumers, increasing our marketing investment and accelerating innovation; innovation based on strong consumer insights at every price point and by winning at retail. We have realigned our sales force to address competitive challenges at a regional level and are investing in consumer insights and customer analytics, upping our game of category leadership. Let's take a closer look at each of these steps.

In building brand equity McCormick is competing from a position of strength. In an earlier graph you saw a relative category share for spices and seasonings. Our category leadership position in the US is well established not only in spices and herbs, but in sub-segments like grilling and organics and in other flavor categories including stocks, extracts and marinades. Our brands extend beyond McCormick to other consumer favorites, like Zatarain's, Lawry's and Old Bay.

As Alan showed, we have a clear commitment to investing in our brands across all markets and in 2014 plan a further increase of at least \$25 million in brand marketing. Of this incremental \$25 million we plan to use \$10 million in the US, largely skewed toward the second half of the year. This will build upon our US share of voice that currently stands at 60% for the spices and seasonings category. We expect a strong payback on this higher investment based on our proven industry-leading ROIs across most media.

These incremental funds are boosting campaigns in a number of areas. A consumer message that emphasizes fresh flavor guaranteed, digital marketing, an extended grilling and tailgating program and new product launch support for skillet sauces and gluten-free recipe mixes.

While much of the increase will occur during holiday periods, grilling season and other important occasions, we are moving towards an always-on platform. This is intended to drive our share of voice and draw consumer interest throughout the year, not just during peak seasons. As depicted here, traditional media and social media both play a role. Our fresh flavor guaranteed message is a great example of our program that has a more extended shelf life and a number of McCormick brands come under this umbrella and are getting a lift in sales.

Another campaign is McCormick's Everyday Cooking. McCormick is airing this ad on Better TV where we are a title sponsor of All Recipe's branded cooking segment, as well as on Hispanic TV. And we have digital distribution of video content that includes recipe segments and celebrity video posts.

Here's the newest initiative with an always-on platforms, reuniting Everyday Cooking along with our upcoming holiday advertising together under a homemade consumer message. The emphasis will be squarely on the role of McCormick brand products in cooking. The underlying message is that homemade cooking is about more than the final dishes; it's about the people who made them, the kitchen in which they're made, the stories behind the recipes, the families that eat them and the experiences they create together.

Everyday Cooking emphasizes field-fresh flavors to take homemade meals from good to great. For the upcoming holiday season our campaign will emphasize the reasons why McCormick is the only way to delivery your holiday meals and we will tailor this message for Hispanic consumers, too.

Let's turn now to digital marketing and how we're leveraging technology to speak to our consumers in a personal way. Since 2011 we've doubled our total company spending on digital marketing and in 2014 are on track for digital marketing to comprise about 40% of our 2014 advertising spend in the US, equal to the planned spending on television.

Digital marketing not only has a strong ROI as shown earlier, but we're beating industry benchmarks and engagement rates. In the US in 2013 we doubled the number of unique visitors to our relaunched website and increased our Facebook fan base by 87%. In 2014 we're projecting that unique visitors to McCormick.com will exceed 25 million and recipe views to exceed 30 million.

In addition to the core McCormick website, we launched four redesigned US sites that can also be readily viewed on mobile devices: Lawry's, Gourmet, Zatarain's and, as seen here, Grill Mates. This new Grill Mates site includes interactive features with rotating content, a Master of the Flames contest and tie-ins with our Flavor Forecast. And our Grill Mates Facebook page now exceeds 1 million friends, making it the largest online grilling community.

We've moved from a fragmented approach for digital communication, supported by seasonal campaign budgets only, to a connected system of branded websites and social channels with the consumer at the center of all we do. With this foundation we know how consumers interact with our brands and now have the opportunity to provide more relevant, personalized content across devices and digital touchpoints.

We were pleased to be tied for number five in the 2014 Digital IQ ranking. Digital IQ quantified the digital competence of 80 packaged food brands in the US market, with ratings that included search, e-mail marketing, brand presence and compatibility on smartphones and tablets. Study results published in May showed McCormick among the top brands. This is great validation of our efficacy and standing in digital marketing. And another ranking, this one of paid search by Ad Impressions, our US core website ranked number 3 among the top 50 consumer packaged goods advertisers.

FlavorPrint, our personalized recipe recommendation service, together with our McCormick.com relaunch, is driving six times higher pages per visit at an average visit duration of seven minutes to our website.

As we move from test to introduction, we're building digital partnerships like Food.com, direct response efforts and public relations. FlavorPrint is being featured in Better TV and regional lifestyle segments. We anticipate an even greater consumer response with our next steps to connect with our retail customers' online activity and integrate it into our brand campaign efforts beginning this holiday.

Sticking with brand equity building in the US, let's turn to innovation. I stated earlier that our pace of innovation moderated in 2013 followed by a more aggressive pace in 2014. Our innovation begins with our investment in consumer insights and four global mega approaches to cooking that we identified: everyday solutions, wholesome family meal planning, make it easy and make it impressive.

Included in the new products launch during the first half of 2014, our Gourmet items to make it impressive, as well as value-priced products for budget minded consumers. We accelerated the launch of our gluten-free recipe mixes in the US to respond to consumer health interests. This product introduction was met with great success in Canada in 2013, and with everyday products like taco and chili we anticipate a good performance in the US this year as well.

Our latest news is skillet sauces. We are really excited about this innovation, which is just now hitting the market. This is a natural evolution of recipe mixes building upon McCormick's strength and brand equity. The products leverage mainstream family favorites with a twist to drive broad appeal. Our products are competitively priced and consumer testing demonstrates a strong taste preference. For example, preference for our Sicilian Chicken was four times greater than the current number one product in this category. So far, customer acceptance for skillet sauces has been extremely strong and the retail sell-in is exceeding our expectations. We anticipate equally strong consumer response as we head into 2015.

Importantly, we've staged a turnaround in our recipe mixes from a sales decline in 2013 to a 3.7% increase through the first half of this year, ahead of a healthy 2.5% category growth rate. In fact, the McCormick brand accounted for 88% of category growth in this period and has gained roughly a percentage point of share.

We're driving this growth not only with new products, but by applying our analytics to encourage retailers to optimize shelf prices and investing in strong programming to fuel sales of our core products, programming that includes an emphasis on the quality of our ingredients versus the competition. And we expect gluten-free varieties and skillet sauces to continue the momentum we have had year to date with our recipe mix category.

Before wrapping up my remarks on innovation, I want to give you a quick preview of a significant launch we have planned for 2015. I can see you already got a quick preview, just a flash of it there. It's a restage of our entire Gourmet line. McCormick's last broad-based revitalization of this line was more than 10 years ago. This restage will include a more contemporary design and fresher appearance to appeal to younger millennial consumers. We'll differentiate the McCormick brand with greater variety, our agricultural practices and processing methods and include a flavor seal, all to provide a fresher product to the consumer.

Again, we're coming at this from a position of strength. Among premium brands of spices and seasonings, McCormick Gourmet is a clear number one in repeat buyers, number one in driving basket size, number one in household penetration. Most retailers have five or more gourmet brands



in the store with a lot of duplication. This relaunch will give us the opportunity to engage retailers in a category management discussion and revisit the number of brands being stocked.

Along with building our brand equity with consumers, we're implementing initiatives to address the recent competitive inroads and win at retail. McCormick has a strong position as category leader to partner with retailers across our global footprint. Collaborating on merchandizing, product assortment, pricing, basket building and loyalty, we are creating win/win solutions. We have innovation and quality products at every price point and are well ahead of any competitors for their shopper insights and analytics.

Herbs, spices and seasonings are highly profitable for the retailer. In the US, this growing category ranks number 4 in profit per foot of shelf space among the 50 center-of-store categories. Consumers purchasing the McCormick brand products can double the basket size for the retailer. When they buy McCormick, they also buy the vegetables, chicken, fish or other ingredients to complete a meal.

When a personalized digital touchpoint is added, the basket ring is even higher. For example, a consumer goes online to search for chicken and sees the McCormick product popup as a way to season the meal. We're now leveraging digital with innovative services like FlavorPrint to further drive significant retailer returns. All of these factors pave the way for a discussion with our customers on actions to optimize sales and profit.

But the competitive inroads in 2013, it was clear that in 2014 we needed to up our game. First, we reorganized our sales force with greater resources placed in markets identified as underdeveloped, more sales leaders with direct customer headquarter responsibility, and tailored our marketing programs to address local competitors and local tastes.

Second, we've made significant investments in insight-driven capabilities and analytics. This has led to new proprietary behavioral structures that provide a better understanding of how consumers shop our categories, a gold standard for how to organize a spice set and, ultimately, a more strategic dialogue with our customers.

Armed with dedicated sales resources and our toolkit, we've increased our customer engagement by doubling our category leadership program resources over the last two years. Our goal is to influence retailers' decisions by leading with our brand and creating a win/win outcome for both the retailer and for McCormick.

We recognize that this is a customer-by-customer effort and that it's going to take time. However, let me share with you some early signs of success. We convinced one retailer to remove duplicate gourmet products and increase space for our unique items like Grinders and Grill Mates. Our top national retailer has discontinued a competitor's grilling marinade product in favor of the McCormick brand. And we've done one distribution for our Lawry's Hispanic items at major Southeast retailers.

Our activity is not limited to bricks-and-mortar retailers. E-commerce sales have surged in 2014 at a high double-digit or even triple-digit rate, depending on the retailer. This performance is a result of our global e-commerce team and support such as featured search and recipe marketing.

Winning at retail extends to pricing. Account by account we are conducting analysis and recommending optimal category pricing for each brand, as well as private label. We're targeting discussions with retailers who represent 60% of ACV. To date over half of the target retailers have accepted our pricing recommendations. We're continuing to work on recommendations for the remaining retailers and expect them to be just as receptive.

Across these activities we are making steady headway. We have effectively faced retail challenges in the past, whether it be emphasis on private label, a clean floor policy or increased fragmentation. In 2014, with our focus on brand building, innovation and winning at retail, we're better armed for success in the US market.

Thank you for your attention and I'll turn it back over to Alan.

Alan Wilson - McCormick & Company, Inc. - Chairman, President & CEO

Thanks, Lawrence.



One of our strategic imperatives at McCormick is growth, to win share with global focus. While we're working to regain our momentum in the US consumer business, we're achieving solid growth in most of our international markets. Through the first half we've grown consumer business sales 17% outside of US, including the addition of Wuhan Asia-Pacific Condiments in China. Consumer demand for flavor, together with our growth strategies to build strong brand equity, compelling innovation, emerging market presence and superior customer intimacy, has led to a strong track record for our global consumer business and creates an outsized growth opportunity for the future.

The effectiveness of these growth strategies is evident in the results. During this 5-year period we've grown sales 33% and increased adjusted operating income 19%. Likewise, our emphasis on customer intimacy, flavor leadership and innovation capabilities have led to strong financial results for our industrial business with a 24% increase in sales and a 39% increase in adjusted operating income since 2009.

Supporting this growth and performance are our people; ready talent, fully engaged. McCormick's 10,000 employees around the world are the key ingredient to our success. Our culture is rooted in the principles of multiple management, which include participation and high performance, and date back to the early 1930s. Our employees care about making McCormick better and we had an unprecedented 92% response rate in 2009 on our latest engagement survey. You can read more about our people and culture in our Corporate Social Responsibility Review.

Our long-term objectives include a 4% to 6% sales growth, a 7% to 9% increase in operating income, both of which are supported by our 10-year performance. Throughout this period we've been steadfast in our investments for future growth. We firmly believe that the increasing demand for flavor, together with our growth strategy and leadership, will enable us to continue to achieve these long-term financial objectives.

At McCormick we bring passion to flavor. We have a focused business and employees around the globe that are working each day to save your world from boring food. Consumer demand for spices, herbs and other flavors is growing worldwide, whether it's exposure to new and more interesting food or as a healthy alternative to sugar, salt and fat. McCormick is uniquely positioned to meet this increased demand. We have a leading share in on-trend categories and we're supplying our customers and consumers with a full range of flavors from value priced to premium. Our broad product portfolio and expanding geographic presence allows us to drive sales in developed markets and to capture the emerging market consumers as they move from bulk to branded in spices and seasonings.

At McCormick our fundamentals are sound, with an experienced leadership team and proven growth strategies to deliver high performance for our shareholders.

Thanks for your attention and, Andrew, I think we have time for a couple of questions.

QUESTIONS AND ANSWERS

Andrew Lazar - *Barclays Capital - Analyst*

Thanks very much, Alan. I'll throw out a couple of things here. First off, just -- I thought it was interesting, your comment around the 83% of the capital deployed against transactions have been at or above target. So I'm just curious also if you have done any benchmarking on that, how that would compare to what you've seen from other companies in this space.

Second would be some of these pricing discussions that you've been able to get in and have with retail customers. I assume it goes customer by customer, but what's the general goal there? Is it gaps between McCormick and private label? Is it gaps between McCormick and some of the other brands that are in the store? What's the goal with regard to those discussions?

And then third would be I think you restaged your dry seasoning mixes a while back after a long hiatus of not having restaged it and I think it was very successful. What are the learnings there, if any, that you can take to the restage of Gourmet?

Alan Wilson - *McCormick & Company, Inc. - Chairman, President & CEO*

Sure. Let me take the first question, which is we don't have a real scientific benchmark, but what we see in the industry is about a 50% hit rate in returns on acquisitions. We know it's a risky profile. And what that says for us is that we've hit well on our larger acquisitions and where we've missed they've been smaller acquisitions and we're still investing and learning our way through that.

The category management story -- and I'll ask Lawrence to weigh in on this as well. The category management story is really about maximizing sales and profit for us and the retailer as we look at the whole category. Generally, in most stores our category has way too many SKUs, a lot of duplication at multiple price points and is not necessarily bringing the consumer the kinds of products that they want. And so what we do we sit down to say in this store, because it varies very much by the population that shops in the store, these are the right products that you need at every price point to maximize your sales and profit and here are some things you may be missing which we can work with.

We do have a pretty good attention on our price gaps versus private label and versus competitive brands. And in some cases retailers are leaving profit opportunities on the table because they're either trading down the consumer or they don't have the right variety at a more premium price.

Lawrence, I'll let you take the question on the recipe mix restage.

Lawrence Kurzius - *McCormick & Company, Inc. - President Americas, China & Chief Administrative Officer*

Oh, sure, but I was also just going to weigh in on the pricing action, also. That is, sometimes the category buyer does not have full view of all of the spices -- all the herbs and spices in the store. So they may be coming in through the produce department and racking and DSC. It's under a different profit center and, as a result, they end up with duplication that's unintended by the retailer and an irrational relationship between the margins of what's in the -- at the home section in the center of the store and the product that's over in the produce department, for example. And so just bringing that to their attention so they can have a holistic view of it and make a rational decision. And generally, we believe the rational decision is favorable to McCormick, is a big part of our initiative there.

In terms of restaging the recipe mix range, some of the learning is keeping the package fresh enough to continue to bring in the younger consumers, but not changing it so radically that you lose your core franchise and your older consumers. And having a -- and bringing in some of the newer items that are more on trend. So some of the things that we're doing, gluten free, a liquid recipe mix format, are all to capitalize on some of the new trends.

Andrew Lazar - *Barclays Capital - Analyst*

Thank you very much--.

Alan Wilson - *McCormick & Company, Inc. - Chairman, President & CEO*

Yes. Thanks, Andy.

Andrew Lazar - *Barclays Capital - Analyst*

And thanks for being here. We appreciate it.

Alan Wilson - *McCormick & Company, Inc. - Chairman, President & CEO*

Thanks for having us.

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