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MKC - McCormick & Company Inc at Consumer Analyst Group of New York Conference

EVENT DATE/TIME: FEBRUARY 17, 2016 / 8:00PM GMT

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PRESENTATION

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We are very pleased to again welcome back McCormick to CAGNY. Please join me in thanking McCormick for sponsoring the break this morning.

McCormick has long enjoyed a unique and advantaged market position within the packaged food space, and while it has experienced some challenges over the last two years or so after taking discrete actions in its go-to-market strategy and pricing architecture, its key US consumer business appears to be heading in the right direction and they've significantly narrowed share losses in its core US spice and seasonings unit.

On that note, we are excited to welcome newly minted CEO, the longtime McCormick executive, Lawrence Kurzius to kick off the presentation today. Welcome, Lawrence, and congratulations once again on becoming CEO.

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

Great, thank you for that introduction, Andrew. We are pleased to be here to take part in your 2016 CAGNY conference today. We have accomplished a lot since we were here at the 2014 conference and I'm looking forward to bringing you up to date on our progress and sharing with you a look ahead at our strategies and plans to continue driving growth at McCormick.

Today, I'm going to focus on three key takeaways. First, with our advantaged categories, our growth initiatives, and the turnaround in our US consumer business, we have increased confidence and visibility in our long-term sales growth target of 4% to 6%. Second, we are stepping up our actions to lower costs and have set an aggressive four-year, $400 million target. And third, we have the right people and the right culture. We are driving our winning ways of working -- strengthen our winning ways of working to drive faster decisions, personal accountability, and actionable insights.

With the momentum in our business, we are reaffirming and have increased confidence in our long-term financial objectives for the Company that include 4% to 6% sales growth and a 9% to 11% increase in earnings per share. With our strong record of increased dividends, McCormick shareholders should expect a double-digit increase in total shareholder return, which through our latest fiscal year-end we have achieved for the past one-, five-, 10-, and 20-year time periods.

As we get started, please note that our remarks will include forward-looking statements and our actual results can vary from these projections. The statement on this slide and in our annual report and website contain additional information regarding business risks.

Most of McCormick's executive leadership team is here with me today, and at the front of the room with me are Brendan Foley, Gordon Stetz, and Mike Smith.

Alan Wilson transitioned to the role of Executive Chairman effective February 1, and while he is not here today, I want to recognize him in front of this group for his exceptional leadership and an enviable track record. Since 2007 under Alan's leadership, we have grown sales by $1 billion to $4.3 billion, completed 11 acquisitions and joint ventures, and increased the percentage of sales in emerging markets, which is above 20% if you include our share of joint ventures. We have doubled cash flow, doubled the Company's market cap, and raised the annual dividend from $0.80 to $1.72. McCormick's annual shareholder return of 13% has exceeded the food industry average and the broader market.

Having been with McCormick for 13 years and now serving as CEO, I look forward to continuing this momentum and performance for our shareholders.

We have three strategic imperatives at McCormick, growth, performance, and people. You just heard about some of our great performance and Gordon will have more to share on this topic. The focus of my remarks will be on growth. At the outset, I want to emphasize the importance of our people, however. Our participative culture was established in the 1930s by CP McCormick. Nearly 90 years later, it is still thriving, because it works. Our employees are highly engaged, clearly aligned with the Company's goals, and rewarded on performance.

I stated that McCormick has an advantaged portfolio across both business segments and our joint ventures. Our products are all about flavor and they're aligned with today's consumers, consumers who want food that is delicious, fresh, high quality, affordable, and convenient. Across generations, flavor remains the number one driver of food decisions by a wide margin, especially among millennials. A recent survey shows 70% of millennials named tastes good as a leading factor in food choice, followed by high quality at 59%.

And when asked how they feel about cooking, their responses also favor our products. Millennials are looking for a signature touch and they view seasoning as a performance art. Millennials' cooking skills and interests are better developed than their age cohort 30 years ago and they rely less on meal kits and prepared foods. 64% say they love to cook.

Importantly for McCormick, our brand indexes well with this generation and studies of brand attitude, household penetration, and share of purchases are all positives compared with other generations.

Regarding wellness, consumers generally regard spices and herbs as good for you. University studies supported by the McCormick Science Institute reinforce this idea with a focus on diet quality, including sodium levels and on inflammation and weight management.

We received great news on this topic about six months ago when the USDA advised school nutritionists and people over age 65 to add herbs and spices to their meals for a more appealing taste and as a way to reduce sodium.

In January, the dietary guidelines for Americans were announced, recommending the use of spices and herbs for the first time to help Americans reduce sodium in their diet. We have built off this news with easy tips for consumers, like sprinkling black pepper and oregano on your eggs instead of salt. The scope of our wellness message is global. For example, spices and herbs are already on the food pyramid in Australia.

At McCormick, we are the taste you trust. We have an unmatched track record in delivering safe, high-quality products. A key element of our program is our global sourcing team. They travel the world to promote sustainable growing practices with local farmers. In today's market, the traceability and testing of herbs and spices is critical.

For example, recent research shows other brands of oregano may contain as much as 70% non-oregano material as filler. Not McCormick. We're getting more aggressive in demonstrating McCormick's quality difference to customers and educating consumers. Let's take a look at this video we are preparing to launch on how we source cinnamon.

(video playing)

We indeed have an advantaged portfolio that aligns strongly with today's consumer.

Before turning to our strategies, here is a quick McCormick 101 for those of you newer to our story. Contributing about 60% of total Company sales, our consumer segment delivers flavor with both leading iconic brands and specialty niche products. Our brands reach more than 140 countries and territories and we reach additional markets through our joint ventures.

Our products range from premium gourmet to private label and other value-priced items. Retail customers regard McCormick as the clear category leader. With our leadership position and growth strategies, we have increased sales for this business segment by 29% in the last five years.

Spices and seasonings account for about half of consumer segment sales and our category position is quite unique. First, McCormick's category share in our top developed markets is well above the next largest competitor. Due to the complexity and number of SKUs in the category, retailers typically only have one brand on the shelf with a full assortment of spices and seasonings.

Second, in addition to being the leading brand, we're also a major supplier of private label in several markets, making us an even stronger partner for our customers, capable of offering a complete category solution.

Globally, spices and seasonings is a $10 billion category. Our share is more than 20%, four times the size of the next largest competitor. This category is projected to grow annually at a mid single-digit rate through 2020. This includes an 8% increase in emerging markets, driven by a movement from bulk toward branded packaged spices and herbs.

The upside potential from this migration is enormous. We estimate that spices and herbs sold in bulk are another $10 billion, doubling the size of the current category. The story for the global recipe mix category is also compelling, with a five-year compound annual growth of 7%.

Next, our industrial segment team is supplying one of the broadest ranges of flavor solutions in the industry and our customers include most of the top food and beverage companies and restaurant leaders. We innovate and grow with these customers from locations around the world. Over the years, we have established a presence in the developing world, including South Africa, Turkey, Brazil, and much of Asia, and a new facility under construction in the Middle East. Since 2010, we have increased industrial segment sales 24% and adjusted operating income 48%.

With this context and momentum, let's turn to our strategies at McCormick. In 2015, we developed a new strategic roadmap. It is organized in the framework of our three imperatives -- growth, performance, and people -- and built on our mission to save the world from boring food. As we developed this roadmap, for the first time we aligned our strategies across all regions and achieved alignment between our consumer and industrial segments.

Under growth, we have four initiatives. Starting at the top, driving our base business is a key element of our sales growth algorithm. For our 4% to 6% sales growth target, we expect one-third to come from base business, one-third from innovation, and one-third from acquisitions.

For our consumer segment, brand marketing is driving base business growth. We have increased our annual marketing spend by 44% since 2010, ahead of the 29% increase in sales during this period. We measure our return on this investment and the latest US data, shown here, shows performance at or above industry levels. Our 2015 marketing in Europe delivered an ROI in the top 20% of benchmark food companies.

We are shifting more towards high-return digital marketing, which reached approximately 40% of our 2015 advertising spend globally. Globally, we have nearly 50 websites to connect consumers to our leading brands, like Old Bay in the US or Vahine in France. Brendan will share the terrific progress we are making in the US. With investments underway in Europe, our results in the latest quarter versus the year-ago period show website visitors up 200% and video views up nearly five times.

We still see a role for television advertising. Let me show you three ads from Europe and Brendan will be sharing some of our exciting ads from the US.

(video playing)

For our industrial segment, we're working to reshape our base business with a shift towards more value-added, higher-margin products in the portfolio. We are seeing a real payoff from these efforts, along with our cost-reduction activity. Our adjusted operating margin ended 2015 at 9.5%, up 200 basis points in the last five years.

The good news is that this is a benefit for both McCormick and for our industrial customers, as these value-added flavor solutions provide more distinctive taste, technical insulation, and competitive advantage.

China has been a real success story for our base business growth. We first entered this market 25 years ago to support the global expansion of our large industrial customers. From that base, we launched consumer brands into the traditional and modern retail channels and established a great branded food service business.

In 2013, we completed our first acquisition in China, gaining access to central China and expanding our product portfolio with a leading brand of bullion. Today, we are well established and profitable in this market and have achieved a 12%, five-year compound annual growth rate in sales, excluding the acquisition impact. China is our now second largest country by sales, after the US, and we see a long runway ahead for increasing our business in China.

Let's turn now to innovation. We're working to accelerate innovation that is both scalable and differentiated. A key metric to mark our progress is the percentage of annual sales from new products launched in the last three years, which was 8% in 2015.

Innovation at McCormick starts with the consumer and our work on consumer insights. An important product from this work is our Flavor Forecast, an annual forecast of emerging culinary trends and taste. For both our consumer and industrial segments, we're inspiring creative and delicious innovation. For our consumer segment, 56 of our new products planned for launch in 2016 are based on the Flavor Forecast.

To understand the local trends and taste preferences, we are investing in technical innovation centers and product development labs and now have 18 locations around the world, and we continue to build on our leading capabilities, which include ideation, sensory, culinary, flavor development, and application.

For our consumer business, we've set our future direction for innovation through our Global Consumer Strategy Council, identifying large-scale opportunities that translate across borders. Early examples included grinders and slow cooker recipe mixes. More recently, we've added gluten-free recipe mixes first in Canada and then in the US. We also feature recipe mixes that offer convenience in preparing local favorites, with examples shown here from Poland and the UK.

One of our first applications of liquid pouch technology was in China, where McCormick is a leading brand of ketchup and we grew ahead of the ketchup category in 2015. We are now launching Thai chili sauce in this format. In North America, this liquid packaging is perceived by consumers as fresher. A recent innovation with Skillet Sauces, Slow Cooker Sauces, and Oven Bake Sauces had millennials in mind. And our consumer team in Central America is also applying this technology in 2016 new products.

We're going global with grilling. Our leadership in grilling started in Canada 25 years ago with the La Grille brand. In the US, we took the concept of grilling seasonings and created what is now a distinct segment of the category with our Grill Mates brand. Today, McCormick is building on its grilling leadership with seasoning blends, dry marinades, wet marinades, and now with Stubbs premium barbecue sauces. Outside of North America, we've expanded our grilling products across Europe and in Russia and Australia.

Our really involved consumers want more gourmet options. In France, we introduced a line of gourmet spices and herbs two years ago. 56% of sales have been incremental to the category and this range of products is growing 10% year on year. In 2015, we launched gourmet pepper grinders and new roasted spices in this market.

In the US, we relaunched our entire gourmet line for 2015 with on-trend packaging, a flavor seal technology, and new varieties. This led to consumption growing 5% since the relaunch. We are now building on the success with conversion of our gourmet line to organic, as Brendan will discuss, as well as non-GMO labeling on our main McCormick brand in the US.

We're also introducing redesigned pepper grinders in Poland and in Russia.

McCormick leads in dessert items in several markets and we have a steady stream of innovation, with examples shown here from France and Australia.

For our industrial segment, customers are also interested in scalable and differentiated innovation. Our capabilities are broad and we align our efforts to support growing categories like beverages, snack products, and numerous ethnic cuisines. In today's market, industrial customers' demand for innovation is not just about great test, but it is increasingly shaped by consumers' interest in wellness.

In 2015, approximately 40% of our new product projects for industrial customers had some type of health and wellness attribute. McCormick's foundation in spices and herbs make us a go-to partner for product reformulation and innovation.

While we start with a culinary orientation and real food, we also compete on more technical flavor solution. Our proprietary FlavorCell encapsulation creates an all-natural product that can provide quick flavor release or retain flavor, for example, when taking a snack or a breakfast product from freezer or microwave, or hold up to challenging processing conditions, like extrusion or in baking applications. And we have technology for masters and enhancers that help our customers address impact on taste when reducing sodium or fat or sugar.

A third growth strategy is to expand the availability and footprint of our products. We are driving this through both acquisitions and through organic growth. Beginning with acquisitions, we see a lot of opportunities in the market right now and have increased our business development resources. As I showed earlier, we have completed 11 acquisitions and joint ventures since 2007 and regard them as great additions to our portfolio. Lawry's, acquired in 2008, is our largest acquisition to date and one of the most successful, adding the top US brand of liquid marinade and seasoned salt to our portfolio.

With Kamis, we gained a leading brand in Poland, as well as presence in Russia and other parts of eastern Europe. Since 2011, we have moved from the number three player in Russia to the number one brand, and this presence in Poland has helped us subsequently establish a shared service center in that country.

Wuhan Asia-Pacific Condiments was not just strategically important, this business has strongly exceeded our financial objectives and we believe we are only in the early stages of cross-selling opportunities.

In 2015, we acquired Brand Aromatics, an industrial business, and Stubbs premium barbecue sauce products in the US, and Drogheria & Alimentari, a leading brand in Italy. We are achieving strong topline growth and expect to achieve our target EVA contribution from these businesses.

We have a robust pipeline of acquisitions with a consistent flavor -- with a consistent focus on flavor. This pipeline includes businesses where flavor and health intersect to extend our current footprint with healthy flavors, value-added higher-margin industrial businesses, some larger businesses in addition to bolt-on opportunities, and acquisitions that build scale where we already have a presence in developed and emerging markets.

As we move forward, we will remain financially disciplined with EVA, economic value added, a primary factor in acquisition decisions and other investment decisions at McCormick.

In addition to acquisitions, we are expanding the availability of our products organically. This includes new geography. As examples, we are deepening the distribution of our brands in China. Our industrial customers continue to open new locations in China, as well as eastern Europe and the Middle East, and we have likewise supported their growth into South America with our new product development lab in Brazil and in the Middle East with a production facility we are preparing to open in Dubai.

We're also pursuing emerging customers and channels. In our consumer business, we are building best-in-class e-commerce capabilities tailored to our category. Brendan will discuss our effectiveness within this area in the US. Our team in the UK, one of the leading markets in e-commerce, is also on the forefront of this opportunity. For our industrial segment, we continue to win business with fast-growing restaurant chains in the US.

Our fourth growth strategy is to excel in customer intimacy and consumer insights, and we're stepping up our game. For retail customers, our investment in US category management tools toward the end of 2015 was five times what we were spending one year prior. In our industrial business, we were recently named global flavor supplier for three top food and beverage companies, and in 2015, we won over 80% of new product briefs in the US with one of our long-standing top industrial customers.

We are proud of these accomplishments and excited to be winning in the market with both our long-term and new customers.

That covers our growth strategies across segments and around the world. I would like now to introduce Brendan Foley. We were pleased to have Brendan join McCormick nearly two years ago to lead our US consumer business. He has led a turnaround of that business and effective January 1 was named President, Global Consumer Segment, and of North America. So, congratulations, Brendan.

Brendan is going to discuss how far we have come in the past two years with our US consumer business and our expectation for continued momentum and growth. Brendan.

Brendan Foley - *McCormick & Company, Inc. - President Global Consumer Business & North America*

Thank you, Lawrence, and good afternoon, everyone. I'm honored to be a part of the McCormick leadership team and part of this afternoon's presentation.

As Lawrence indicated, I made the move to McCormick about two years ago and wanted a company that was growing, had strong leadership, solid values, and culture, and where I could make an impact. Since making the move, I've only become more impressed with the Company, our ability to reignite the US consumer business, and our prospects for the future.

I have three messages I want to deliver during my remarks. First, we are building sales momentum in our core McCormick spices and seasonings. Second, we have three strong portfolio platforms in our US consumer portfolio with ambitious programs underway to drive growth. And third, across our entire business we are well positioned to reach today's consumer.

Here is some context for our US consumer business, which accounted for 36% of total Company sales in 2015. Our three platforms mirror our global consumer segments, with spices and seasonings accounting for about half of sales. Recipe mix is roughly 20% and the remaining 30% are regional leaders in this market, consumer favorites like Zatarain's, Thai Kitchen, Kitchen Basics, and now Stubbs.

As many of you will recall, toward the end of 2013 US retailers were responding to pressure from other channels, including natural food stores and discount stores and by bringing additional brands onto the shelf. Also, our innovation was less robust and much of our marketing focus was on trade events. As a result, our sales growth had slowed and our category share for both spices and seasonings and recipe mixes declined.

Lawrence led the effort to address the situation, and two years ago here at this conference he showed this slide, which outlined our actions to regain momentum in the US consumer business, strengthen brand equity with consumers, increasing our marketing investment and accelerate innovation, and win at retail with greater resources on our sales team, investments in consumer insights and customer analytics, and elevating our game with category leadership.

Let's take a look at our progress, starting with building brand equity. In the last two years, we've increased our advertising 20% for this business. We're using these dollars more efficiently and achieving an ROI ahead of the food industry, as Lawrence showed. During the same two-year period, we shifted our spend toward high-return digital marketing, now reaching 46% in 2015.

As Lawrence indicated, we're getting more aggressive with a consumer message about quality and how that differentiates McCormick. We just launched a campaign to help consumers see, smell, and taste the difference that pure flavors can make, pure as herbs and spices with no added fillers and recipe mixes with no MSG or artificial colors or flavors. Let's take a look.

(video playing)

Turning to innovation, we picked up the pace, both renovating our core and developing new products. About a year ago, we relaunched our entire gourmet line with on-trend packaging, flavor seal technology, and new varieties. As Lawrence noted, since this relaunch we have achieved a 5% increase in retail takeaway.

We have just about completed the rollout of herb grinders, a breakthrough innovation. This is a significant opportunity to convert consumers that currently purchase packaged fresh herbs or to use, then, our new grinders. In trial, two-thirds of consumers used the grinder every three days. Our global consumer team has begun to roll this out -- roll out this great concept to other markets.

In further renovation of our core products, we have plans for 2016 that we believe will resonate strongly with millennials and other demographic groups. Six months ago, we announced a move to label more than 70% of McCormick brand spices, herbs, and extracts non-GMO. Many of our products are already non-GMO and now our labels will show it.

And by the end of 2016, we expect 80% of McCormick gourmet brand sales to be organic, up from the recent 10%.

Importantly, these types of changes remove the reason for being for a number of competitive lines that have little to offer in a way of innovation, brand support, consumer insights, and category management tools. By accelerating innovation, we're not only driving growth with consumers, but strengthening the value of McCormick's brands with our retail partners.

With that in mind, let's move to our third action, winning at retail. Our goal is to continue driving category growth and profitability for both McCormick and our retail customers. Since 2013, we have added new sales leadership and increased category management team resources and invested in more sophisticated category management analytics. We have taken deliberate and progressive steps to address retail price gaps and price points on key items and optimizing the assortment on shelf.

In the fourth quarter of 2015, we began to apply these resources and tools, conducting workshop discussions with our top customers. This year, we are developing broader promotion analytics and launching revenue management. Our new sales leadership includes a head of category management, directors of shopper marketing and e-commerce, and a broad sales training agenda. And for category management, we now have a full suite of tools and solutions with price modeling and assortment optimization across the category.

Together, these actions represent a new way of working with retail customers, one that is squarely within the Company growth strategy to excel in consumer insights and customer intimacy.

Collectively, our actions to build brand equity and accelerate innovation and win at retail are driving results in the form of increased sales for McCormick brand spices and seasonings. In our recent earnings call, we shared this slide, which I think says it all. Category growth for our business remains strong at mid single-digit rates, and we have achieved successive increases in takeaway of our brand quarter by quarter.

Viewed another way, for fiscal-year 2015 retail takeaway for McCormick brand spices and seasonings was 1%, compared to 4% in the fourth quarter and 4.5% in the all-important Thanksgiving period.

I also want to point out that within spices and seasonings we manage about 10 product ranges that include our premium gourmet, Grill Mates, black pepper, and core A through Z items. In the fourth quarter, we gained share in 70% of these product ranges.

We also gained share of 60 basis points with those customers who have taken action on our category workshop discussions. We are seeing different levels of adoption for the actions we have developed during these workshops. For two of our top accounts that have made more comprehensive changes, category unit growth exceeded 5%. Across our top 20 retail customers, we are now growing share with 14 of them.

We expect further progress as our sales leaders continue to deploy these tools and augment this with new revenue management capabilities.

Clearly, our action plan to grow spices and seasonings sales is working. Our leaders and employees have achieved great results in turning around this part of our business and establishing it on a trajectory for growth.

I want to turn next to the other two growth platforms in our US consumer business. We are equally excited about our prospects for each of these. In addition to spices and seasonings, we're a leader in recipe mixes and other categories, including marinades, cooking stock, New Orleans cuisine, and most recently premium barbecue sauces with Stubbs.

Recipe mixes are designed for less confident cooks and those looking for quick, great-tasting meals. In recent years, we renovated the core of this business to remove artificial flavors and MSG, followed by our launch of gluten-free items, like seasonings for tacos, chili, and gravy mixes. Later this year, we will introduce a line of organic McCormick brand recipe mixes.

With this pace of innovation and our brand marketing support, we have achieved monthly share gains for two years now and accounted for more than the category growth in both 2014 and 2015.

As part of our liquid pouch technology, we introduced wet recipe mixes with Skillet Sauces, a product designed with millennials in mind. We expanded this further with varieties for Slow Cookers and have plans in 2016 for a line of Oven Bake Sauces. To date, we have achieved more than 10% share of this growing category.

We have more innovation planned for wet sauces and marinades that span other brands. In 2016, we will introduce Grill Mates 30-minute marinades, a single-use, no-waste, no high fructose corn syrup product. We are also poised to launch Kitchen Basics organic stock, a flavor base for multiple dishes that is also gluten free and a good source of protein.

And under our Thai Kitchen brand, we have introduced an organic version of our popular coconut milk, a product increasingly used in nondairy baking. We're the number one brand in the coconut milk category, which has grown at a 29% compound annual growth rate for the last five years.

In August, we added Stubbs to our lineup of number one brands. Stubbs is a leader in premium authentic barbecue sauces in the United States. Products for this business also include marinades, rubs, and skillet sauces. They are a perfect complement to our product lineup of leading grilling products marketed under the Grill Mates, Lawry's, and McCormick brands. And we expect to further drive a high rate of growth through expanded distribution, increased household penetration, and innovative flavors.

We have a lot of energy building behind our Zatarain's brand. Consumers name Zatarain's eight times more than any other brand as the authority on authentic New Orleans cuisine, as innovation plans include rice cups and new frozen flavors, and the love for New Orleans cuisine extends well beyond the Southeast. So we are building our base business through increased distribution of favorites like crab boil and Creole mustard.

Let's take a look at some of the ads we will be running in 2016.

(video playing)

Much of what I have discussed addresses our efforts to position our business to reach today's consumers. As I wrap up, I want to bring together some thoughts on several demographic groups and digital. Lawrence showed earlier how our brand and segments are uniquely positioned to delight millennials. They are a generation even less willing to compromise on taste, health, and convenience than previous generations.

We have a whole array of products and content to help these cooks close the gap between what they can create and what they want to eat. This continues to guide our portfolio and communications development.

Increased interest in product transparency and health and wellness has driven a number of product upgrade, core innovation, and innovation, as we've shown. We see many more opportunities to reimagine ingredients and still deliver outstanding flavor and have a few of our latest examples shown here. The good news is that there is a lot of common ground across generations when it comes to wellness.

Today's consumer is also our most diverse in background and palate. These multicultural consumers demand bold authentic flavors and the right product assortment. We have well-loved authentic brands that really resonate. For example, McCormick has been a leading iconic brand in Mexico for decades and Lawry's enjoys very strong brand index with African-American and Hispanic consumers.

Our product offerings span a wide range of flavors, segments, and price points. For each of our brands, we are working to connect with consumers regardless of generation or culture. I spoke earlier of our increased investment in digital. It is a terrific way to get the right type of content to the right people when they are the most receptive. Internally, we are getting a strong return on this investment, and externally, we are also pleased with the recognition for our leadership.

In a digital IQ ranking by L2, McCormick was ranked fifth out of 114 US food brands. And in e-commerce, we were named the top supplier for grocery by Amazon.

Everything we are doing to drive growth in our US consumer business, whether it is brand marketing, innovation, a combined win with our customers, we are fully aligned with our corporate growth strategies. We believe consumer demand for our categories will continue to increase, and from a strengthened, re-energized position, we are confident that we can continue to build sales and drive growth.

As I turn the podium over to Gordon, let's take a look at this video featuring our leadership in digital marketing and e-commerce. It reflects our increased focus on driving great content behind our brand.

(video playing)

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

Thanks, Brendan. As Brendan demonstrated, we have achieved steady improvement in our US consumer business. Across all of our businesses, we are encouraged by the momentum in our growth strategies heading into 2016.

Let's turn to performance. Our strategies are to accelerate fuel for growth, drive continuous value creation, and pursue functional excellence and collaboration. Launched in 2009, CCI is our fuel for growth at McCormick. CCI stands for comprehensive continuous improvement.

It is comprehensive in that we are looking broadly at all costs across the business and income statement. And it is continuous because the program is structured to deliver cost savings year after year and we have been doing just that. Since inception, we have cumulatively delivered savings of nearly $450 million. Importantly, this is largely a bottom-up activity that leverages our culture of participation in McCormick's employee engagement.

As an example, in 2015 we reduced salaried headcount in North America by 8% with minimal business disruption. Across all of our productivity improvement and streamlining actions in 2015, we delivered a record $98 million of cost savings, up 42% from 2014. Major sources of these savings were raw materials, SG&A, and manufacturing.

With renewed energy and dedicated resources in markets around the world, we expect to maintain this higher level going forward.

As a sign of our confidence, we have set a four-year, $400 million cost-savings target. Sources for these savings include further global procurement efforts and manufacturing activity where our employee teams are reducing losses and improving production efficiencies. We will continue to streamline our selling, general, and administrative activity with actions like our new shared service center in Poland and the North American effectiveness initiatives.

On an annual basis, we anticipate that this targeted level of savings will approximate 2% of sales or about 3.5% of cost of goods sold over the next four years. We plan to use a portion of these savings to fund investments in growth, for continued increases in brand-building equity, and R&D. However, given moderate material cost inflation, we also expect a portion of these cost savings to drive higher margins and higher profit. Cost reduction is an important effort for McCormick. From a priority and resource standpoint, it is something we manage in parallel with our growth initiatives and in a way that is consistent with our culture.

Looking at the next two strategies, our power of people is also driving continuous value creation and is instrumental in pursuing functional excellence and collaboration.

As CFO of McCormick, some of my favorite examples of our progress in this area are in our capital investments and cash generation. Lawrence discussed our track record with investments in acquisitions. Another area of investment is capital expenditures. Our current level of spending is approximately 3% of net sales. Part of this investment is tied to CCI and achieving greater productivity. This includes actions that improve our environmental impact. As noted in our latest report on corporate social responsibility, over a three-year period we increased the amount of material we recycled by 59% and lowered the amount of solid waste we generated by 38%. And we have set goals for the next five years.

A portion of our capital expenditure supports our growth. In just the last three years, we have expanded or created capacity in Poland, Dubai, the US, and most recently a new, more highly automated Shanghai facility. In addition, we have renovated or established R&D facilities in the US, the UK, France, and Brazil. And we anticipate significant returns on our investments. For example, in 2015 roughly $100 million of our $128 million in capital expenditures were global supply-chain projects with an expected return of 22%.

Capital expenditures are part of our balanced use of cash, along with dividends, acquisitions, and share repurchases. Shown here is cash spent for each of these four purposes over the past five years, with $1.5 billion returned to shareholders through dividends and share repurchases. We are proud of our dividend program, 30 consecutive years of increase and inclusion in the S&P 500 dividend aristocrats.

I also want to point out that McCormick's share repurchase activity has been accretive for our shareholders for each of the last five years, with the fiscal year-end stock price exceeding the average price of shares repurchased during the year.

Over this five-year period, we have improved our cash flow from operations substantially. However, we also recognize the balance-sheet opportunity to improve our cash conversion cycle and, as part of our CCI program, we have initiatives underway to achieve this, aligned with our performance incentives. This helped drive our cash flow from operations to a record $590 million in 2015, a 17% increase from 2014.

To wrap up my remarks, we have stepped up our focus with CCI and established a significant new target. We are investing in the growth of our business and achieving attractive returns on these investments. We have a long record of strong cash generation and a balanced use of cash that generates strong returns for McCormick shareholders. Thank you for your attention. It is now my pleasure to turn it back over to Lawrence.

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

Thanks, Gordon.

Our CCI program, focus on cash, and EVA discipline are important elements of our strategy and strategic roadmap. You heard in our remarks today that people are another important element. If you look back at our strategic roadmap, McCormick's leaders and employees and participative culture are the foundation of our business and we see this as a competitive advantage. With the right people and culture, we're strengthening the organization with faster decisions, more personal accountability, and actionable insights.

We have taken a number of steps forward in this direction with our recent streamlining actions in North America and EMEA region that eliminated layers in the organization with tools that cascade organizational goals down to the individual employee and directly link to incentive compensation and by gaining insights with increased global resources in innovation, digital, CCI, analytic capabilities, and business development.

The three takeaways I showed at the beginning of my remarks align with our strategic roadmap and they are an integral part of our strategy. Investors should look for progress reports from us on delivering the 4% to 6% sales growth, including further increases in our US consumer business, our consumer international markets, and our global industrial segments achieving our $400 million cost-reduction target, along with higher margins and further increases in cash flow, our winning ways of working at McCormick, and all driving 9% to 11% EPS growth.

Looking back 10 years, we've had a great performance, a strong, long-term financial track record, a steady increase in net sales and adjusted earnings per share, and higher cash flow. This track record, our strategic roadmap, our leaders, and our employees give us confidence in our long-term financial objectives that I showed at the beginning of our remarks. Our business is capable of achieving this higher performance and this is what we expect to deliver to our shareholders.

To sum up our remarks this afternoon, we're executing on growth strategies that differentiate us from competition, strategies that are designed to win with both customers and consumers. McCormick leads in an advantaged category, flavor. Flavor is on trend and on the rise, and increasingly, spices and herbs are a core element of healthy eating.

And we are aggressively stepping up our performance as an organization to drive out costs and accelerate our fuel for growth. I would like to thank you for your attention and I think we have time for a few questions.

QUESTIONS AND ANSWERS

Alexia Howard - *Bernstein - Analyst*

Alexia Howard, Bernstein. I have a question for Brendan. You have been at for two years now talking to retailers about proper category management practices and the shale offers, adjusting the shale offers that you have seen. What are the barriers that prevent all of the retailers from adopting your recommendations? It sounds as though there are still some that are resisting. Is it price points? Is it the margins that they're getting on some of these other brands? How can you overcome that? Thank you.

Brendan Foley - *McCormick & Company, Inc. - President Global Consumer Business & North America*

Thanks for your question. I don't know that I would characterize that we are running into barriers or resistance. I think this is a new way of working as we go to market, particularly from a category management aspect, and part of this is really continuing to have that dialogue with all of our customers. So we have made a lot of great progress, particularly up against where I would call our top 10, so to speak.

But this is an ongoing journey and it is one that as the conversations continue to evolve, it happens over several discussions, over several months, and we're not done with that journey in any way. But it is not a degree of seeing resistance or a barrier to this. What they want to hear from us is how we're going to grow the category. And so coming in with robust strategies that show, frankly, a lot of category analytics or on a very complex category take time to work through with them.

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

Alexia, if I could add to that, there is no retailer that we have worked with yet who has rejected all of our recommendations. It has been the degree of adoption.

Unidentified Participant

Eric?

Eric Katzman - *Deutsche Bank - Analyst*

I am old enough to remember when oregano was the filler.

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

That's a different category.

Eric Katzman - *Deutsche Bank - Analyst*

Yes, different category, but still an opportunity.

So more to the point, working capital has always been a challenge for the Company and I have heard promises of improvement there. And I'm wondering, Gordon, is there something different this time around? And is part of the expected cash conversion cycle improvement a function of the likelihood that raw material costs come down or there is just more potential inventory out there so you don't have to hold as much to guarantee supply?

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

It has been a challenge over the years, and the fact that we can't hedge our forward commodity outlook, other than taking strategic inventory, has been part of the challenge. As commodities have gone up, they have created a need for us to go longer on certain commodity items, which can impact the inventory turns.

Having said that, what we are looking at going forward, and perhaps this is a new way of thinking about it, it's not just inventory as the lever. We are looking at our payables structures, our receivables structures and mechanisms to take days out of that part of the cash conversion cycle, in addition to the inventory as well.

So while strategic inventory can certainly impact it, underneath that there is also finished goods inventory, which has been a continuous journey, and you know, following us a long time, Eric, that that has been a challenge, but there is deeper analytics, deeper understanding in terms of looking at safety stock and turns and things like that that are going on now, production run times, all of that. And so, we are very focused on improving it and it is part of our CCI program.

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

Eric, if I can elaborate on that. As we took a look at our strategic roadmap in 2015 and reflected back on the recent past years, back to 2007, 2007, 2008, 2009, internally as a Company we actually had four strategic imperatives -- growth, performance, people, and cash was the fourth one. While there was that focus on cash, our cash conversion cycle declined year on year, and then cash was folded into performance. It lost a little bit of focus.

And while some decisions were made around uses of cash for strategic inventory, as Gordon was referring to, that were well thought out and recognized as EVA positive, there were other decisions that were made in a less thoughtful way because it just wasn't as much of an area of focus, and I think we've recognized as a leadership team that we need to put a greater emphasis on cash generation.

Unidentified Participant

Andrew.

Andrew Lazar - *Barclays Capital - Analyst*

Brendan, I think over the last year or two there were a number of smaller brands, as you have noted, that were taken on at retail, though not usually in the core spice aisle, maybe in the produce space or around the perimeter. I guess, what has become of some of those? Have they carried their own weight? Has the velocity off the shelf maintained their presence? And have some of your actions that are now getting taken on and retailers better understanding what you are trying to communicate to them had an impact or started to have an impact on some of those brands and should they even be in the store?

Brendan Foley - *McCormick & Company, Inc. - President Global Consumer Business & North America*

I think to answer the first part of a question, it is a bit of a mixed bag. We have seen some fade away because they just really didn't hit the velocity rates that are required to succeed in the category.

But then others, we find that we have been fairly successful with our assortment approach to really identify where we are driving real incrementality in the category and what is really additive and what is not. And so, that has helped us, I think, provide a brighter light on some of those decisions that might have been made in the past, and we are able to identify what are truly value creators in the category and which ones aren't.

And that has helped us, I think, in some areas identify areas of redundancy in certain parts of our line. I think our gourmet business, as an example of that, where we've started to see, I think, much more improved performance because we can identify that as long as one business like us is bringing innovation, category management, and also heavy levels of marketing, we are really creating a value story behind our brand.

Unidentified Participant

Chris.

Chris Growe - *Stifel Nicolaus - Analyst*

I had a question, really targeted towards the US. You have some pricing coming through this year for the Company overall, and I believe you have taken a price increase I believe in Canada and maybe a little bit in the US, or you intend to. And I was just curious. I know you have worked pretty hard on price points in the US, especially on certain key items. So is this a core spices and seasonings may not see much pricing, but it is going to come across the line, or just trying to get a sense of how that pricing flows through this year and how North America would be showing up.

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

Right, we did not take broad-based pricing in the US in 2014 or 2015. But as we've worked with retailers on the category, using the new tools on assortment and pricing that we have, what we've found was we were coming to a consistent set of recommendations around taking the price of certain items up and other items down, and it allowed us to step back and say there is an opportunity for us to adjust our pricing levels overall.

And so, the pricing action that we are taking now in the US is very specific item by item. It includes items going up and items going down, but it does result in a net price increase for us. Brendan, you want to elaborate on that?

Brendan Foley - *McCormick & Company, Inc. - President Global Consumer Business & North America*

I think really our comments on our new way of working and going deeper on the analytics enable us to identify where are the right areas that we could match up where we are seeing increases in our input costs and what was the right increase to take.

And so, we are able to be a lot more specific with the retailers as opposed to spreading it across the line, which might have been the previous approach. This is a lot more targeted, a lot more strategic, and yields, I think, maybe a better outcome for both our retailer and also us.

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

We're also getting great acceptance from the retailer. Our competitors have moved up in price during this time as well, and so we have really gotten pretty good acceptance from the retailer. And based on our analytics, we are really not expecting any negative impact on the velocity from the consumer.

Brendan Foley - *McCormick & Company, Inc. - President Global Consumer Business & North America*

Okay, I have one thing, Lawrence. This also created an opportunity for us to really demonstrate, I think, to our trading partners a much new idea of our dialogue with them. It really is far more substantive in terms of the analytics we are bringing to the category, and that has changed the nature of our conversation to one of not of barriers, but rather a lot of acceptance and engagement in what is a very productive category for them.

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

Right, it is an opportunity also to have a dialogue with them about category profitability, so that's a win for them as well.

Unidentified Participant

Akshay.

Akshay Jagdale - *Jefferies LLC - Analyst*

Akshay Jagdale, Jefferies. Thanks for the question. So my question is on natural and organic. It seems like there is more of a focus there, so, one, am I wrong in thinking that? And why -- if that's the case, why now there is a perceived sort of slowdown in that category overall, in food, so why now? And help me put it into context with all these other growth initiatives as to how additive it could be.

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

Sure. Well, first of all, I will say that in terms of consumer interest in transparency around their food, there doesn't seem to be any slowdown at all. Consumers want to know what is in their food, where it comes from. Especially when we talk about millennial consumers and younger consumers, they want to know where it came from and what is in it and what it is made of.

And you can see through many of the videos that we showed that we are trying to show consumers where the product is grown, the whole chain from the farm all the way to the product that ends up in their pantry.

And as part of wanting to understand the products that they are consuming and being transparent with the consumers, many consumers are very interested in organic. In particular, organic was one of the ways that some of these smaller brands were getting into the store. It was really the one unique reason for being. And although we were the number one retailer of organic spices already, with a relatively small number of items in our gourmet range, we were seeing encroachment by some -- by niche brands that were -- that had organic as their one point of difference.

So we have taken a different approach than some of our peer companies have. We haven't treated organic as a niche. We have said we're going to make this one of the mainstream attributes of a core product range, namely our gourmet. Part of bringing that along is developing the supply chain, frankly, to source organic. We have to -- at the scale of our business, we have to develop that supply chain all the way back to source ourselves, in many cases. A great deal of the spices that are offered to us purporting to be organic by our testing are not, and we want our brand to be absolutely pure in this regard. And so, developing that supply chain is very important.

I will take it a step further on the non-GMO as well. Again, in this idea of transparency, consumers are interested in whether the products contain genetic modification. We make no judgment on the science of whether GMOs are good or bad. We just know that consumers want to know, and so we are taking the step to label our products that way.

In many cases, it is just taking credit for what we already have. For many of our iconic raw materials, there is no genetically modified plant out there, but consumers don't really know that and we want to make sure that they do. For others, it really does require us to do something different than our competitors do that we believe can be hard to match and gives us a competitive advantage.

Unidentified Participant

Good. We will have to cut it off there and head to the breakout. Please, again, join me in thanking McCormick for being here and for sponsoring the break this morning.